LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

SUBMISSION FROM SCOTTISH RETAIL CONSORTIUM

ABOUT SCOTTISH RETAIL CONSORTIUM (SRC)

1. The SRC's purpose is to make a positive difference to the retail industry and the customers it serves, today and in the future.

2. Retail is an exciting, dynamic and diverse industry which is going through a period of profound change. Technology is transforming how people shop; costs are increasing; and growth in consumer spending is slow.

3. The SRC is committed to ensuring the industry thrives through this period of transformation. We tell the story of retail, work with our members to drive positive change and use our expertise and influence to create an economic and policy environment that enables retail businesses to thrive and consumers to benefit. Our membership here in Scotland and across the UK comprises businesses delivering £180bn of retail sales and employing over one and half million employees.

4. In addition to publishing leading indicators on Scottish retail sales, footfall and shop vacancies, our policy positions are informed by our membership and determined by the SRC's Board.

INTRODUCTION

5. The SRC welcomes the opportunity to contribute to the Committee's deliberations. SRC has long advocated reform of the rates system, especially as retail accounts for 22% of rates[1] and as the industry seeks to reinvent itself for the future. We were in the vanguard of championing[2] the creation of an independent examination which led to establishment of the Barclay Rates Review.

6. In addition to being represented on the Barclay Implementation Advisory Group and responding to last year's Barclay Implementation consultation, the SRC previously produced several papers on business rates including in 2015 '*Business Rates: Fundamental Reform*' and in 2016 '*Holyrood 2016: Business Rates*'. Both papers noted that the balance of business taxation has become increasingly weighted against people and property intensive firms. Our 2017 '*Shaping the Future of Scottish Retail*' paper and 2018 Scottish Budget submission alighted on the short and medium-term changes that ought to be made to business rates.

KEY POINTS

7. SRC supports the thrust of the Non-Domestic Rates (Scotland) Bill. The business rates system is in need of reform and this Bill makes tangible headway on recasting it for the future. Retail accounts for over a fifth of all rates paid, and with the industry under enormous pressure (due to changes in shopping habits, weak demand and

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[1] P29 of the Report of the Barclay Review of Non-Domestic Rates

[2] SRC initiated joint open letter (retailers and others) to the Finance Secretary, published in *The Herald* on 11/11/15

rising costs) and reinventing itself for the future, action is needed to reduce outgoings.

8. SRC's overall business rates priorities are: that the system flexes with economic conditions, is competitive, is coherent in the wider public policy context, that there are no ad hoc levies or supplements, and that there is a short to medium term plan to lower the overall rates burden.

9. Headway is undoubtedly being made on business rates, notably these legislative plans for more regular revaluations and reducing the implementation period, but also non-legislative measures such as the action taken to bear down on the headline poundage rate with a below-CPI uplift in 2019-20 and the Finance Secretary's sensible rejection of a new rates levy on commercial premises located out of town.

10. The legislative proposals contained within the Bill for more frequent commercial property revaluations and the planned halving of the period between valuations being undertaken and coming into effect is particularly positive.

11. However, this should not be the limit of our ambition on rates. The overall burden remains onerous with rates now at a 20-year high[3], and with retailers having faced a further £13.2 million uplift in their rates bills in April 2019. A plan to lower the rates burden, an end to ad hoc levies, coupled with restoration of the level playing field with England on the large firms' supplement (which Barclay said should be done by 1 April 2020[4]), would increase retailers' confidence about investing in new and refurbished shop premises and support wider public policy objectives about employment and the vitality of our high streets[5].

RESPONSES TO THE COMMITTEE'S QUESTIONS

More regular revaluations

12. SRC has been in the vanguard of advocating more frequent commercial property revaluations and a reduction in the period between the valuation date and the rating list starting. It is heartening that this is being enshrined in legislation through the Bill.

13. As a result, the rates system should better reflect trading conditions and provide a more effective shock absorber against future economic bumps in the road. It will help the rates system keep pace with structural changes in the economy, ensure each property pays a fairer share of the rates burden relative to others and a more accurate one, decrease the likelihood of major fluctuations in values between revaluations, and consequently lessen the appetite for appeals[6].

[3] Ministerial response to written PQ S5W-22489 on 29 April 2019
[4] Road map, p13 of the Report of the Barclay Review of Non-Domestic Rates
[5] SRC reaction to ONS data on 3/10/18 showing 4.1% fewer Scottish shops over 4 years
[6] SPICe briefing on Non-Domestic Rates Bill, 14/5/19, p33 – Bill could see a 25% reduction in number of appeals

14. One in every ten retail premises in Scotland's town centres is empty[7], a visible manifestation of the changing nature of the industry and how the economics of investing in retail premises is being undermined by rising property costs. During the previous valuation period commercial property valuations reflected the top of the market, from early 2008, and the retail and trading world had to live with this for a sustained period despite economic reality having moved on dramatically in the years after that. High valuations coupled with a high tax rate act as a barrier to improve, extend or move into new retail premises, more so now there is often a viable and lower cost alternative to trading from physical property i.e. online retailing.

15. We note that the next commercial property revaluation is envisaged to come into force in 2022 in Scotland, but in 2021 in England and Wales, and 2020 in Northern Ireland. As stated in our response to the 2018 Barclay Implementation consultation, our preference would be for an aligned timetable, thus making the system simpler and easier for firms operating across different parts of the UK. We understand too there would be some benefits for Assessors for an aligned timetable[8] in terms of sharing expertise and resources.

Business growth accelerator

16. The SRC backs the principle behind this policy which came into effect in April 2018, and the Bill seeks to make this change permanent. Including properties eligible for this relief on the valuation roll should aid transparency. We support removing the need for ratepayers to apply for this relief.

17. Our colleagues in the BRC have called for a similar policy to be adopted[9] in England, albeit they suggest a period substantially greater than 12 months for delaying the imposition of rates when an existing commercial property is expanded or improved, as this would better allow firms to recoup the cost of property investments.

Collection of information from ratepayers and improved transparency

18. We support the proposal in the Bill to make it easier and simpler to gather information from ratepayers in order to inform commercial property valuations, including use of email rather than postal mail for data collection, and moving from criminal to civil penalties for non-compliance. Including properties such as public parks and buildings in public parks (e.g. cafes) onto the valuation roll should aid transparency.

Reform to valuation appeals

19. As outlined above, more regular commercial property revaluations should lessen the appetite for appeals, as should the Bill's provisions for giving ratepayers longer to respond to requests from Assessors for information. We remain sceptical of the notion of introducing charges for rates appeals, which the Bill proposes, as our

[7] SRC/Springboard vacancies monitor, May 2019
[8] SPICe briefing on the Non-Domestic Rates (Scotland) Bill, p33
[9] BRC response to the Treasury Select Committee's 2019 inquiry into Business Rates

members already believe they are paying quite enough already towards business rates. If Ministers proceed to introduce fees for appeals then they ought to be refundable if the ratepayer is successful and should be set at a modest level so as not to deter considered challenges, balanced by a realistic deadline and ratepayers having sufficient access to information on how the initial valuation was determined.

Other aspects to business rates not covered in the Bill

20. The thrust of the Bill is positive, however this should not be the limit of our ambition as progress on business rates overall remains uneven. The overall burden remains onerous, with many ratepayers liable for the headline rate, plus the large firms' supplement, and a Business Improvement District levy on top. Rates are at their highest for 20 years, and retailers witnessed a further £13.2 million uplift in their annual rates bills in April 2019, hindering their ability to reinvent themselves for the future.

21. Indeed, the business rate poundage (tax rate) has increased from 40.7% to 49% since the start of this decade. For the 22,000 commercial premises (of which 5,128 are retail premises) subject to the large business rates supplement, the comparable figures are 41.4% and 50.6%.

22. We therefore welcomed the Budget decision to bear *down on the headline poundage rate. Whilst we would have liked Ministers to have gone further, the below-inflation rise was at least an explicit acknowledgement of our concerns. This decision to strike a headline poundage rate a touch below that which applies in England will shave £1.9 million off the rates bills of retailers in this financial year than would otherwise be the case. That said, their rates bills still increased by more than double the uplift in Scottish retail sales of 1%*[10] *over the past 12 months. The early announcement of a CPI-linked uplift for 2020-21 does give firms' predictability for budgeting purposes.*

23. Returning to a substantially lower poundage rate is unlikely to happen overnight, which is why we seek a timetabled plan over the short to medium term to lower the rates burden, coupled with restoration of parity and the level playing field with England on the large firms' supplement. This would increase retailers' confidence about investing in new and refurbished shop premises.

24. 23% of commercial premises liable for the large business rates supplement are shops, making it more expensive to operate on our high streets and retail destinations. We remain unclear why retail and other commercial properties subject to the supplement are thought to be better placed to pay more than their English counterparts or competitors, which is at odds with the Bill's Policy Memorandum which talks of "making Scotland the most competitive place to do business"[11]. Indeed, the Barclay Review said this higher supplement 'damages perceptions' of Scotland as a place to invest, and recommended the level playing field be restored by April 2020. The *large business rates supplement remains twice that which applies in England and costs firms £65 million extra each year, of which*

[10] SRC's Scottish Retail Sales Monitor, May 2019
[11] NDR Bill Policy Memorandum, p1

retailers account for £14.1 million. This higher rate raises the hurdle for attracting commercial investment, making investment decisions more marginal and increasing the attractiveness of investment in digital routes to market instead. Eradicating this discrepancy would mark a positive step towards delivering on promises of a globally competitive business environment, and the Committee could usefully examine the government's timeline for *eliminating the surcharge.*

25. Scotland's rates system has been bedevilled by ad hoc rates supplements over recent years, including the large retailer levy in 2012-15, the 2016 doubling of the large business rates supplement, and the (recently rejected) proposal for a levy on out of town premises. A moratorium on new or additional levies or supplements should be put in place.

26. While small firms' rates relief is a welcome recognition of the need to keep down costs for firms, three quarters of retail employment is with firms who do not qualify. Ministers are forecasting that the annual cash value of rates reliefs will have increased by £159 million over the 4 years until 2019/20, to £750 million[12], a 27% uplift. The value of reliefs as a share of the total take from business rates rises over the same period, from 21.6% to 26.9%. The system only seems to function through myriad exemptions and reliefs that continue to grow as an overall proportion of the total amount paid in business rates. The use of these sticking plasters underlines the need for more regular revaluations, as envisaged in the Bill, so that the rates system better reflects trading conditions and delivers more accurate bills.

27. *Local authorities have the power to cut business rates in their areas, however only two of the 32 councils did so in 2018-19. Indeed only three in total have done so, and for a time-limited period, since councils gained this power from the 2015 Community Empowerment Act. The Committee could usefully examine progress on this and question* efforts thus far to get more local authorities to capitalise on this opportunity to support high streets and town centres.

28. The Budget accord with Green MSPs introduces other relevant aspects. We note plans to allow councils to introduce workplace parking levies, however we understand business rates are already paid on such parking spaces, so this potentially introduces double taxation. The proposed devolution of empty property rate relief to councils would be concerning if it was a step towards repatriating control over the poundage rate to local authorities. SRC has supported local flexibilities such as the local discretionary rates relief arising from the Community Empowerment Act, Business Improvement Districts, and the Business Rates Incentivisation Scheme, however we are firmly opposed to repatriating control over the poundage rate to local authorities.

29. Furthermore, the Budget accord contains a commitment to cross party talks on replacing council tax. SRC is open to reform or replacement of council tax, however any changes should take into account the potential impact on consumer spending, any potential administrative implications for employers, and any implications for business rates. We would be concerned if the talks alighted on wider aspects of local government finance including rates without an opportunity for stakeholders to

[12] Ministerial reply to written PQ S5W-20612 answered on 8 January 2019

contribute before decisions are made, especially with so much effort having gone into the Barclay Review and its implementation.

30. The Scottish Government's plans for a deposit return scheme for drinks containers will require retailers and others to refit their stores and premises in order to take back and store drinks containers. In many instances this will involve store refits and the purchase of reverse vending machines, with a potential upfront cost of up to £100 million[13]. At present it is unclear what financial support package will be forthcoming for the purchasing and installation of these machines. We are concerned these mandated changes could be classed as improvements and consequently affect the rateable value of the shops and other premises which host them. Conceivably an extra rates liability may affect a property's entitlement to reliefs such as the Small Business Bonus or bring them into scope for the large business supplement. The Committee may wish to enquire further on this.

Scottish Retail Consortium
May 2019

[13] SRC response to Scottish Government's announcement of the system design for DRS, 8 May 2019