LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

CALL FOR VIEWS ON THE NON-DOMESTIC RATES (SCOTLAND) BILL

SUBMISSION FROM REFORM SCOTLAND

Reform Scotland is delighted to be able to respond to the Local Government and Communities Committee’s call for evidence on the Non-Domestic Rates proposed legislation. Our comments respond to issues 3-7 highlighted in the call for evidence, as well as point 13 asking for general views.

Points 3-7:

These questions deal with a range of issues covering timescales of revaluations; new properties; parks; holidays homes and appeals. Reform Scotland does not believe that there should be a single centralised answer to these questions. These issues will vary in importance and impact depending on the specific local authority, so it is only right that those issues are decided by local authorities. We accept that this will mean different rules across the country, but Non-Domestic Rates are supposed to be a local tax, they are supposed to be able to take local needs and priorities into account. What is right for one area will not be right for another, and therefore the power should reside at a local level.

Point 13:

General comments: While Reform Scotland has published a wide range of reports over our 11-year history, two key themes have come up time and time again - the need to grow Scotland’s economy and the need for greater localisation. But what is often overlooked is that the latter is a key route to achieving the former.

At the Finance Committee in the Scottish Parliament on 6 February the Finance Secretary Derek Mackay appeared to acknowledge this when he commented, with reference to the proposed work-place parking levy:

“The important point is that this is not about a Scottish Government scheme; it is about empowerment of local government. It was a necessary budget concession because, if there had been no agreement on the budget, the consequence would have been that a £42.5 billion budget for Scotland would have gone down. Ultimately, this is about empowering local authorities.

“I wonder why some members who were previously—apparently—for local government empowerment and letting local councils make decisions in consultation with local people and businesses according to local circumstances, and who accused the Government of being a big, bad, centralising Government, are now against localism when it is supported by a majority in the Scottish Parliament?”

Reform Scotland agrees with empowering local authorities and supports the proposals set out in the budget agreement. However, if the Scottish Government is to truly embrace localism, then it can’t just be about small schemes - local taxes must be
devolved to local authorities so that varying circumstances and priorities can be taken into account.

This is why Reform Scotland believes that Non-Domestic Rates should be devolved to local authorities in full. This would allow councils to vary how and to whom the tax applies, based on their own circumstances. It would also ensure that Non-Domestic Rates are the genuinely local tax they are supposed to be. When a tax is devolved in full it also improves transparency and accountability as the electorate can clearly see where decision-making power resides. If the local community dislikes a decision, just as with Holyrood or Westminster, it has the ability to vote the decision-maker out of office.

Each council would then have to decide whether to retain the business rates inherited or to seek to increase or reduce them for their area. Councils would have an incentive to provide an attractive economic environment, but the decision would be up to them. For example, a council could seek to increase business rates which might have the effect of increasing income in the short term but lead to poorer economic performance and lower income in the longer term.

However, the increase in local financial autonomy and accountability is likely to give councils an incentive to design business taxation policies and broader local economic development strategies to support the growth of local businesses, encourage new start-ups and attract investment, since this will benefit the council directly by increasing its income from business taxes.

We are aware that if business rates were simply devolved some councils could be worse off, due to the re-distribution of income that occurs centrally. However, it is possible to re-adjust the block grant to ensure that in Year 1, no council loses out.

Councils across Scotland face huge divergence, not just in terms of geography and population density, but also in economic growth. If we genuinely want to grow our national economy, we have to first recognise that there is no such thing as a single economy across Scotland, but rather a set of regional ones. Circumstances in Edinburgh and Aberdeen are very different to those in Dundee and Dumfries; but equally Edinburgh and Aberdeen also face different challenges.

A one-size-fits-all approach for the nations of the UK has effectively been rejected, and the same logic should apply for the local authorities of Scotland. Our councils struggle to make a major difference to their local communities because they have no real control over fiscal powers.

There are arguments advanced by the Barclay Review that efficiency, convenience for larger-rate payers, and ensuring differing rates do not affect investment decisions, require consistency of rates and administration across Scotland. Annex C of the Review considered giving local authorities the ability to set business rates at a local level, but argues against it, stating “The argument in favour of consistency for ratepayers across Scotland is based around efficiency – ease of administration, payment, and ensuring that rates don’t affect investment decisions between different areas. These concepts are very important for larger ratepayers with multiple properties and the potential to move operations around, whether in Scotland or in the UK.”
However, Reform Scotland suggests that the same argument could be used to oppose devolving any taxes from Westminster or varying those taxes so they differ from the UK level. It is worth remembering that the Scottish standard poundage differs from the UK rate.

Reform Scotland believes that a devolutionary relationship between Holyrood and councils is both consistent with a devolutionary relationship between Holyrood and Westminster, and an acceptance that Scotland is a diverse country with diverse requirements. Consider the following statistics from the Scottish Government’s Seven Cities Summary document¹:

- Between 2011 and 2016 Edinburgh’s mean population growth was 1.2% while Greenock’s was -0.5%
- There were 68 new businesses per 10,000 adults in Edinburgh in 2016 but 44 in Midlothian.
- The three-year survival rate for businesses in Aberdeenshire was 71% while it was 57% in Renfrewshire.
- The GVA per head in Edinburgh in 2016 was £38,396 while in East Lothian and Midlothian it was £16,722.
- The unemployment rate for adults over 16 in 2016 was 6.5% in Kilmarnock and Irvine and 3.4% in Dunfermline and Kirkcaldy.

These statistics show the material variations in economic circumstances across Scotland, mirroring those across the UK as a whole. Our local authorities need the tools to address the specific issues faced by their communities.

Non-Domestic Rates are supposed to be a local tax, and it is imperative this is recognised as that taxation is reformed. This is why we believe the tax should be devolved in full. This is the route to a healthier, more vibrant, and more accountable local democracy in action. It is time to empower Scotland’s local authorities.

¹ [https://www.gov.scot/Topics/Statistics/Browse/Business/Publications/7Cities](https://www.gov.scot/Topics/Statistics/Browse/Business/Publications/7Cities)