LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

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

SUBMISSION FROM THE SCOTTISH COUNCIL FOR DEVELOPMENT AND INDUSTRY

Introduction

The Scottish Council for Development and Industry (SCDI) is Scotland’s Economic and Social Forum. We are an independent and inclusive economic development network representing all sectors and all geographies of the Scottish economy. Our mission is to convene our members, partners and stakeholders across the private, public and third sectors to deliver inclusive and sustainable economic growth for Scotland.

1. The Scottish Government’s overall programme of Non-Domestic Rates reform, and how the Bill fits into this.

SCDI’s Blueprint for the Scottish Economy, From Fragile to Agile: A Blueprint for Growth & Prosperity (2015), called on the Scottish Government to launch a review which would fundamentally reform the non-domestic rates system to make it more reflective of, and responsive to, the changing economy and supportive of investment into business growth and employment.¹

SCDI therefore welcomed the announcement of the independent Barclay Review by the Scottish Government in 2017, and its commitment to a comprehensive approach to reform Non-Domestic Rates to improve the business environment. It is welcome that the Scottish Government accepted and progressed implementation of the recommendations of the Barclay Review. SCDI strongly supports its actions and the proposals within the Bill to move to a three-year revaluation cycle; introduce the Business Growth Accelerator; increase the powers of assessors and local authorities to obtain information; and introduce a new relief for day nurseries.

However, the level of the business rates applied to many properties is an ongoing barrier to investment and business viability, especially in the hospitality sector. The scale of increase for many properties has also been very high. Many retail businesses with physical premises face strong online competition and the level of their rates is increasingly unaffordable due to their falling revenues and other rising costs, contributing to the decline of the High Street in towns and communities across Scotland.

¹ https://www.scdi.org.uk/policy/blueprint2015/
Moreover, further progress can be made to enhance the business environment by equalising the Large Business Supplement in Scotland with the level in place in England. The Large Business Supplement in Scotland is currently set at 2.6p compared to 1.3p in England.

2. How the Government has responded to the Barclay review, in particular on those recommendations it has rejected in full or part.

SCDI welcomes the Scottish Government’s response to the review and its commitment to reform. It is SCDI’s understanding that the recommendations of the Barclay Review will be implemented in full. The recommendations have been progressed in various ways, whether through the Bill and secondary legislation, or via other non-legislative action by the Scottish Government.

3. Section 2 of the Bill which provides that revaluation of properties subject to non-domestic rates would be carried out every 3 years rather than every 5 years.

SCDI strongly supports the move to more frequent revaluations. The replacement of the existing five-year revaluation cycle with a three-year revaluation cycle will address concerns that the rateable values of some properties are archaic. Non-Domestic Rates will be more reflective of, and responsive to, up-to-date market and business conditions. More frequent revaluations will be particularly beneficial for retail and hospitality businesses. However, more frequent revaluations will generate higher levels of activity by and demand on assessors, local authorities, ratepayers and others. The system and its various stakeholders will have to respond, especially in supporting the timely flow of information.

Some sectors are more vulnerable to external macroeconomic shocks or exposed to greater levels of volatility which regularly occur on a timeline shorter than three years. This is particularly true in the energy sector, where Global Brent Crude prices have fluctuated significantly in recent years. Consequent disruption to the economy of Aberdeen and the wider North East resulted in dramatic falls in property values, but valuations did not readjust. These abrupt changes resulted in the valuation of properties at a far higher rate than current real market prices, leaving ratepayers facing inflated and problematic charges which did not reflect up-to-date market or business conditions in the region. This had a particularly damaging effect on the hospitality sector where trade and income severely declined at the same moment as valuations (based on old data) increased. The Scottish Government should, therefore, explore whether some mechanism to assess significant region- or sector-specific changes within revaluation cycles could be utilised to review non-domestic rates in exceptional circumstances.
The Bill proposes that the next revaluation in Scotland occurs in 2022. However, this will cause misalignment with England and Wales, as both the UK Government and the Welsh Government have committed to launch their next revaluation cycle in 2021. In order to achieve synchronisation and ensure rateable values are up to date, SCDI supports the next revaluation taking place in 2021.

4. Section 3 of the Bill, which (together with section 9) makes provision in relation to new or improved properties. These delay the point at which non-domestic rates are increased because a property has been expanded or improved, or at which a new build property begins to incur liability to non-domestic rates. The underlying aim is to incentivise development and investment in business properties.

SCDI welcomes the additional clarity provided by Section 3 of the Bill. SCDI also supports the measures contained within Sections 3 and 9 of the Bill to incentivise development and investment in business properties. It is vital that the Non-Domestic Rates and Planning systems mutually support business investment and economic development.

5. Section 4, which aims to increase the degree to which parks are subject to non-domestic rates, in recognition of the commercial activities that take place in some parks (e.g. the running of a café).

SCDI supports the measures contained within Section 4 to ensure that commercial activity in parks is treated consistently by the Non-Domestic Rates system to commercial activity which does not take place in parks.

6. Section 5, intended as a measure to address a perceived “loophole” that enables owners of holiday homes to avoid both council tax and non-domestic rates by making it more difficult to enter a home on the roll (and, through this, to then claim relief under the small business bonus scheme).

SCDI supports the measures contained within Section 5 to close this loophole, which will protect local authority income for essential public services which support inclusive economic growth.

7. Sections 6-9, which aim to reduce the current high rate of valuation appeals, which the Scottish Government perceives as speculative. (Increasing the frequency of ratings revaluations in section 2 is also seen as a component of this reform.)

More frequent revaluations should contribute to a reduction in the rate of appeals by ensuring fairer and more accurate valuations. However, if valuations do not reasonably
reflect up-to-date market and business conditions, business models or revenues, then appeals may increase or remain high.

8. Section 10, which removes eligibility to claim charitable relief from non-domestic rates from mainstream independent schools, and Section 11 which gives the Scottish Ministers the power to issue guidance to local authorities on the appropriate way to use their powers to grant sports club relief.

On Section 10, independent schools have historically been the beneficiaries of charitable status because they have been recognised as serving the public good in some way. Many independent schools provide bursaries for talented young people from deprived backgrounds. Independent schools can also host learning support facilities and resources, host sports facilities or deliver substantial music or arts provision which are accessed by other schools, sports clubs and the wider local community.

State schools are, however, not exempt from Non-Domestic Rates. It is important that they have adequate resources and there are legitimate questions around transparency, fairness and equality with the current system. There is also some debate over the application of exemptions to special or specialist schools. Local authorities have differing views on this specific question.

On Section 11, the guidance which the Scottish Government issues to local authorities should provide clarity. SCDI would support the use by local authorities where appropriate of their powers to grant sports club relief to support community groups, improve health and wellbeing outcomes and widen access, according to local priorities and circumstances.

9. Section 12, which aims to address what the Scottish Government describes as a known tax avoidance tactic concerning unoccupied or under-used properties.

SCDI strongly supports the measures contained within Section 12 to prevent tax avoidance. Such action be taken to should maximise the economic potential of infrastructure and housing stock, particularly in areas of property shortages for non-domestic or domestic use. In such areas, unoccupied or under-used properties can be a constraint on business and community growth.

However, in the absence of a clear definition of “active occupation” in the Bill, interpretation of the legislation will remain subjective, and its implementation will remain inconsistent, across Scotland. Moreover, Section 12 should provide for the ratepayer to appeal a determination by a local authority.
10. Section 13, which will enable councils to initiate debt recovery proceedings for unpaid rates sooner.

SCDI supports the measures contained within Section 13. Unpaid rates are a substantial, multi-million cost for Scottish local authorities. Local authorities will welcome action to protect their income and to streamline the debt recovery process.

11. Sections 14, 18, 19 and 22, which together aim to strengthen the power of assessors to obtain the information they need to carry out their role, and sections 15, 16, 17, 20, 21 and 22 which give local authorities increased powers to obtain information from ratepayers, in order to ensure that the information they have is accurate, and to reduce the risk of fraud.

SCDI supports the measures contained within Sections 14 to 22 of the Bill. The provision and flow of information between ratepayers and assessors should be accelerated and enhanced, as required by the move to a three-year revaluation cycle, by the strengthening of the powers of assessors. However, the proposed expansion of the timeline for ratepayers to supply information from 14 days to 56 days could undermine such efforts. A shorter timeframe could be explored as a reasonable compromise.

12. Part 4 of the Bill, which give the Scottish Ministers the power to make anti-avoidance regulations to prevent ratepayers gaining an advantage from avoidance arrangements that are considered artificial and sets out definitions of “advantage” and “artificial”.

SCDI welcomes Part 4 of the Bill to support action against tax evasion and avoidance.

13. Do you have any other comments about the Bill? In particular, is there anything not in the Bill concerning non-domestic rates that should be in the Bill?

SCDI has no further comments to make about the Bill.

However, more broadly, significant changes to the Non-Domestic Rates landscape have been and will be made as a result of the Barclay Review and the Bill. A high-profile and collaborative communications strategy, with input from and support in its delivery by all stakeholders, will be necessary to widely and clearly communicate these changes to ratepayers ahead of the next revaluation.

In addition, the potential implications of the Scottish Government’s Deposit Return Scheme on Non-Domestic Rates do not appear to have been considered to date. The rateable value of properties may be affected by the installation of reverse vending machines to support the collection of items.