

Barclay Implementation
A consultation on non-domestic rates reform
Scottish Government
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12 September 2018

A response from Reform Scotland on the Scottish Government's consultation on non-domestic rates reform

Reform Scotland is pleased to have the opportunity to respond to the Scottish Government's consultation on implementing the Barclay review of non-domestic rates (NDR).

Our response will specifically address questions three, 20 and 24, but to begin with we also have a number of more general comments about reform of NDR in Scotland. Although these do not deal directly with any of the questions in the consultation, we believe they are important issues that need to be dealt with when considering reform of the system.

Juxtaposition of devolution to Holyrood and devolution from Holyrood

In reality there is not a UK economy, but a series of regional ones. The existence of the Scottish Parliament means that we can better try to address the specific issues we face as a nation. Reform Scotland agrees with the Scottish Government that meaningful fiscal powers enable it to address the issues facing Scotland more effectively. This is why we have called for VAT to be devolved following Brexit, and why we believe the Scottish Parliament must be responsible for raising the majority of the money it spends.

However, the same logic applies to local authorities within Scotland. There are different regional economies across Scotland, where the effects of unemployment, aging populations or business creation differ. 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. It is time to give them the ability to make that difference, and the starting point on the road to genuine local fiscal responsibility would be complete control over business rates - which is, after all, portrayed as a local tax.

There are arguments advanced by the Barclay Review (and hinted at in the consultation document) 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 has differed from the UK

rate many times, and is indeed currently lower with the Scottish 2018-19 rate at 48p¹ while the UK rate is 49.3p².

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 document³:

- 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 is supposed to be a local tax, but it is set and controlled by Holyrood. This needs to change. Local authorities should have full control, including over relief and to whom and how it is applied. They are best placed to respond to the differing economic situations they face.

Question 3: From 2020 a small number of pilot councils will have a new power to increase rates paid by out of town or predominantly online businesses. Do you agree or disagree with putting in place safeguards?

Reform Scotland doubts that the Scottish Government would refer to limits being placed on Holyrood's ability to use a devolved tax as a "safeguards", regardless of the political party in charge at the time.

Those "safeguards" are, in fact, mechanisms for central government to interfere with this minor amount of devolution. If the Scottish Government truly wants to perform an impact test, it should give councils the power without strings attached rather than tying their hands. This would also improve accountability, making the decision process clearer and taking it closer to the electorate.

¹ <https://www.mygov.scot/business-rates-guidance/how-your-rates-are-calculated/>

² <https://www.gov.uk/calculate-your-business-rates>

³ <https://www.gov.scot/Topics/Statistics/Browse/Business/Publications/7Cities>

Question 20: Should there be any local discretion in the application of this policy.

This question relates to Barclay recommendation 22, “To counter a known avoidance tactic for second homes, owners or occupiers of self-catering properties must prove an intention to let for 140 days in the year and evidence of actual letting for 70 days”.

Reform Scotland would support giving local authorities discretion in how this is applied, in all circumstances (question 22). The prevalence of holiday-lets and any issues alongside those, together with the impact and importance of tourism to an area, will vary from council to council, and each one should therefore be free to make their own decisions based on those circumstances.

Question 24: What are your views on whether Councils should have discretion in the application of this measure for properties, so that local circumstances can be accounted for?

This question relates to Barclay recommendation 26 and the use of rates relief for empty buildings. Reform Scotland agrees that it should be left to local authorities to decide how to reform relief on empty buildings to enable individual councils make different decisions that reflect their differing needs and circumstances.

Conclusion

In 1999, many politicians and commentators suggested that Holyrood and its politicians lacked the necessary skills to safely take full control over any additional taxes, and that Westminster should retain “safeguards”.

20 years later, while those views on the Westminster-Holyrood relationship have changed, the same attitude remains in respect of the relationship between Holyrood and local authorities.

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.

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. 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.

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.

Yours sincerely,

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