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Your ref

Our ref AB/NJ

Dear Ken

Scotland's City Leaders response to Scottish Government's Business Rates Review

In June 2016 we, the leaders of Scotland's seven cities, published the "Empowering City Government" report¹ setting out our clear commitment to working together to achieve long term economic growth that will empower our people to flourish and for local investment to build sustainable economic futures for succeeding generations.

Our cities are the key drivers of national economic growth contributing more than half of Scotland's GVA and over 60% of employment. However, our cities face significant challenges if they are to remain globally competitive when compared with their English and international counterparts who currently have access to a greater range of devolved fiscal and non-fiscal levers (National Audit Office, 2015).

A key focus of the Empowering City Government report is defining the relationship between cities and the Scottish Government in setting fiscal policy. As part of this important work the cities have produced a collective response to the Scottish Government's current Business Rates Review and this attached as Appendix 1 to this letter.

¹ Empowering City Government, Seven Scottish Cities, June 2016

<http://static1.squarespace.com/static/53c8d78be4b0c984e42f0c74/t/576cefc6579fb338f0411d14/1466757092714/FI+NAL+-+Empowering+City+Government+-+EU+Version.pdf>

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The response outlines a number of areas for future consideration and Scotland's seven city leaders look forward to further discussion with the Scottish Government on this important topic.

Yours sincerely



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Review of Business Rates Scottish Cities Response

Context

1.1 The Scottish Government is currently undertaking an external review of business rates in Scotland. The remit of the review is to explore ideas and options to improve the business rates system in Scotland to better support business growth. This includes:

- effectively responding to wider economic conditions and changing marketplaces;
- supporting long-term growth and investment; and
- ensuring overall revenue neutrality and maintaining the level of funding for local government.

Submission

2.1 The review is being undertaken at a time of fiscal and economic uncertainty, with Scotland's cities facing ongoing challenges if they are to continue to be strong competitors in the global market.

2.2 Scotland's local authorities are experiencing declining budgets and increased costs, whilst service demands continue to grow. This is particularly true for Scotland's cities that face a range of opportunities and challenges of a scale and intensity greater than those faced by smaller urban economic geographies and rural areas. Specific pressures experienced by the cities include:

- responsibility to drive economic growth through investment in infrastructure, innovation and competitiveness (locally, nationally and globally);
- complex service needs, especially in terms of citizens' requirements around social inclusion, care and equalities, as well as promoting local democracy;
- greater environmental challenges; and the
- requirement to provide a cultural offering to attract talent and investment.

2.3 It is essential Scotland's cities are empowered and appropriately resourced to effectively meet these challenges. The "Empowering City Government" statement, published in June 2016 on behalf of the Leaders of Scotland's seven cities, set out a number of proposals to empower cities to help them realise their economic potential and reshape the relationship with the Scottish Government.

2.4 One of the key proposals was to grant the cities "*greater consultation and representation over the setting of local taxes*" and "*the power to adopt appropriate local taxes and levers (including new levers) to help drive their local economies*". This proposal is underpinned by

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international evidence that suggests that cities that have greater flexibility over the taxes they raise are economically more successful, are more democratically accountable to the communities they serve and consequently more socially inclusive.

- 2.5 The two main property taxes in Scotland, council tax and non-domestic rates, are both collected by local authorities. However, in the case of non-domestic rates, the rate of taxation (poundage) is set centrally by the Scottish Government, while reliefs and exemptions are set within a national framework by the Scottish Parliament. The ability of local authorities to control non-domestic rates is limited to granting partial or full relief. As a result, control of non-domestic rates rests largely at a national level.
- 2.6 The Scottish city local authorities are keen to explore adjustments to the non-domestic rates regime that would empower local authorities, increase accountability, and secure appropriate receipts:
- Detailed consideration of greater devolution/retention of NDR income, particularly where NDR uplift occurs as a consequence of choices taken by the local authority;
 - Streamline mandatory/discretionary reliefs and exemptions to ensure that the tax base (and what is levied) is realistic and transparent;
 - Operational changes that would enable late payers to be pursued at an earlier point in the financial year;
 - Measures to combat “phoenixing”, the practice where individuals deliberately declare their companies insolvent on a serial basis to avoid NDR liability;
 - Measures to address the deliberate under occupation of premises e.g. letting a small proportion of space to a charity to avoid NDR liability.
 - A review of the provisions relating to reliefs from vacancy – in particular the extent to which these may deter speculative development; and
 - A review of the Small Business Bonus Scheme to ensure that levels are appropriate for inner-city or urban located businesses.

Further Considerations - Brexit and Global Financial Pressures

- 3.1 The IMF, in their recent 6 monthly review, expressed concern that the structural damage done by the last financial crisis is far from being fully repaired. The solution which they promote is the generation of a stronger economic recovery, including reforms to underpin growth.
- 3.2 Unfortunately, Europe is facing complex challenges that require national and local solutions. Scotland’s withdrawal from Europe through Brexit is currently an unknown layer of complexity that could, without effective intervention, restrain economic growth.

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- 3.4 Brexit is at an early stage with some areas of the economy seeing little change. Moving forward, and as the terms of Brexit becomes clear, businesses may well require significant support if they are to survive and grow.
- 3.5 In the event of a 'Hard Brexit' a mixture of national and local measures may be required, underpinning the need to look at the transfer of additional economic levers to enable councils to react to local challenges.

Summary

- 4. The Scottish city local authorities are keen to explore a range of options to improve the business rates system in Scotland. The ideas detailed at 2.6 have the potential to incentivise collection, tailor activities to reflect local conditions and support economic growth.

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