ARGYLL AND BUTE COUNCIL — **COUNCIL**

CUSTOMER & SUPPORT SERVICES — **29 SEPTEMBER 2016**

BARCLAY REVIEW OF BUSINESS RATES

1.0 EXECUTIVE SUMMARY

1.1 The Scottish Government has set up the Barclay review group to make recommendations to enhance and reform the business rates system in Scotland to better support business growth and long term investment and reflect changing marketplaces. The Group will report to Ministers in July 2017. Currently they are seeking input from stakeholders to contribute responses to the group on looking at solutions, whilst maintaining the overall level of funding.

1.2 The Council should welcome this opportunity to contribute. The draft response is attached for consideration.

BARCLAY REVIEW OF BUSINESS RATES

2.0 INTRODUCTION

2.1 The Scottish Government has set up the Barclay review group to make recommendations to enhance and reform the business rates system in Scotland to better support business growth and long term investment and reflect changing marketplaces. The Group will report to Ministers in July 2017. Currently they are seeking input from stakeholders to contribute responses to the group on looking at solutions, whilst maintaining the overall level of funding. The consultation opened on 13 July and closes on 7 October 2016.

3.0 RECOMMENDATIONS

3.1 Council is asked to consider the draft response attached at Appendix 1 and comment on it.

4.0 DETAIL

4.1 The draft response covers the following key points:

- In principle, we consider that there should be a return to local control which would strengthen local accountability. It would allow the development of local relief schemes and give greater local flexibility.
- Emphasis needs to be on making sure that business rates is fair, transparent and predictable so that businesses know likely impact of investment decisions.
- Revaluations need to be regular, and to have associated short lived transitional relief schemes to avoid nasty surprises.
- Enterprise zones are restricted to very specific sites for specific industries which means we need to second guess what type of sites are best suited to that industry – could this be broadened?
- BRIS scheme is complex and end results in terms of local rates retention are unpredictable. There is no evidence that it has any effect in encouraging successful economic development, or making economic development activity more effective. Any areas which are fortunate to be doing well get rewarded again.
- There is a lack of evidence that TIF schemes nationally are particularly effective at generating new development which is self-financing.
- Timeshares should be in valuation roll as a single entry
- Favourable treatment of Self-catering properties encourages owners to use them this way rather than make them available for long term lets and this may adversely affecting housing supply in some areas.

5.0 CONCLUSIONS

5.1 Council is asked to approve the draft response attached at Appendix 1.

6.0 IMPLICATIONS

6.1	Policy:	Affects levels of local tax paid by ratepayers and levels of income received by the council.
6.2	Financial:	Intention is to broadly maintain current levels of income from non-domestic rates. Changes could affect how this is distributed to councils.
6.3	Legal:	New legislation would be required to put any agreed changes into effect.
6.4	HR:	None.
6.5	Equalities:	Changes will need to be subject to an equalities impact assessment at a national level.
6.6	Risk:	Dependent on what changes may be agreed.
6.7	Customer Service:	Limited change expected.

Appendices
1 Draft response to consultation questions

Douglas Hendry
Executive Director Customer Services
8 September 2016

Policy Lead: Councillor Dick Walsh

For further information please contact Judy Orr, Head of Customer and Support Services Tel 01586-555280 or Fergus Walker, Revenues and Benefits Manager, Tel 01586-555237

Appendix 1

Local Government and Communities Directorate
Local Government Division

13 July 2016

Dear Sir/ Madam

Barclay Review of Business Rates - How to Get Involved

The Barclay review group has been set up to make recommendations that seek to enhance and reform the business rates system in Scotland to better support business growth and long term investment and reflect changing marketplaces.

The Group will report to Ministers in July 2017. You are invited to contribute to our conversation so we can design a solution together on how the system can be reformed, whilst still maintaining the overall level of funding to provide the services upon which businesses rely.

Please submit your comments by **7 October 2016** with the completed Respondent Information Form (see "Handling your Response" below) to:

ratesreview@gov.scot

If you don't have internet access, you may post your comments to the address below.

Local Government Finance Unit
Scottish Government
Victoria Quay
Edinburgh
EH6 6QQ

If you have any queries, please email ratesreview@gov.scot

We would be grateful if you would keep responses to under 12 pages, wherever possible.

Handling your response

We need to know how you wish your response to be handled and, in particular, whether you are happy for your response to be made public. Please complete and return the **Respondent Information Form** which forms part of the consultation questionnaire attached to this letter as this will ensure that we treat your response appropriately. If you ask for your response not to be published we will regard it as confidential, and we will treat it accordingly. All respondents should be aware that the Scottish Government are subject to the provisions of the Freedom of Information (Scotland) Act 2002 and would therefore have to consider any request made to it under the Act for information relating to responses made to this consultation exercise.

Next steps in the process

Where respondents have given permission for their response to be made public, and after we have checked that they contain no potentially defamatory material, responses will be made available to the public at http://consult.scotland.gov.uk. If you use Citizen Space to respond, you will receive a copy of your response via email.

Following the closing date, responses will be published where we have been given permission to do so.

The group will consider all responses made, along with other representations and evidence to produce a series of recommendations to Ministers in July 2017. The Government will then consider these recommendations.

Comments and complaints

If you have any comments about how this consultation exercise has been conducted, please send them to ratesreview@gov.scot or the postal address listed above.

Please note your response will be acknowledged, but the group cannot enter into correspondence nor can members adjudicate or offer any interpretations or opinions on the operation of the current system.

I look forward to receiving your contribution.

Kind Regards,

Marianne Barker
Secretary to the Barclay Business Rates Review Group
ratesreview@gov.scot

Barclay Review of Business Rates

RESPONDENT INFORMATION FORM

Please Note this form **must** be returned with your response.
Are you responding as an individual or an organization?

☐ Individual

x Organisation

Full name or organisation's name

ARGYLL AND BUTE COUNCIL

Phone number

01586 555237

Address

KILMORY
LOCHGILPHEAD

Postcode

PA31 8RT

Email

FERGUS.WALKER@ARGYLL-BUTE.GOV.UK

The Scottish Government would like your permission to publish your consultation response. Please indicate your publishing preference:

x Publish response with name

☐ Publish response only (anonymous)

☐ Do not publish response

We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

x Yes

☐ No

Please indicate which category best describes your organisation (Tick one only).

Business Owner/ Ratepayer	
Business Representative Organisation/ Trade Body	
Local authority	x
Other public sector (e.g. NHS Board, Executive Agency or NDPB)	
Third sector/ equality organisations	
Professional/ Representative body for professionals e.g. rating agent	
Academic	
Individual	
Other – please state…	

Please ensure you email this form along with your response to ratesreview@gov.scot **by 7 October 2016**

Barclay Review of Business Rates

Consultation opened 13 July and closes 7 October 2016

Q How would you re-design the business rates system to better support business and incentivise investment?

When formulating your response you may wish to consider the following points

- How your suggestion will support business and investment
- Whether the impact will be universal or sector / region specific
- If it will carry a cost to the Scottish Government and how this could be met from within the rating system
- Whether your suggestion will reduce or increase costs for some or all ratepayers
- If there is any evidence you can supply to support your suggestion it would be helpful if you include this

Response

Argyll and Bute Council welcomes the opportunity to reform the business rates system to better support business growth and long term investment and reflect changing martketplaces. In principle, we consider that there should be a return to local control which would strengthen local accountability. It would allow the development of local relief schemes and give greater local flexibility. We make a number of additional specific suggestions below.

<u>Design of the system</u>

When considering any re-design of the business rates system emphasis needs to be on making sure that business rates is fair, transparent and predictable so that businesses know the likely impact of investment decisions. This will make it easier for businesses to assess potential investment opportunities and it could give them more confidence to invest in new businesses or in enhancing existing business. The impact of this would be universal and not specific to a region or sector and the cost could be met within the rating system. There would be no additional cost to the ratepayer.

<u>Revaluations</u>

Revaluations need to be regular. More regular revaluations would even out some of the changes in value which can occur within the revaluation cycle and this would reduce the need for transitional relief schemes which can be complex to administer and to understand. The latest revaluation has been after a 7 year period and indications so far are that the level of valuation changes are substantially higher than when a 5 yearly cycle was in place. Consideration could be given to reducing the cycle further, possibly to every 4 years. Such a move to more frequent revaluations would reduce the number of appeals and keep rateable values more aligned to current rents and other economic factors. Smaller changes in rates payable would help give rateable occupiers a greater degree of certainty which would help them in making investment decisions.

The impact of this would be universal across all ratepayers. The cost of more frequent revaluations would be offset by reductions in cost of handling appeals and could probably be met within the rating system.

<u>Enterprise zones</u>

Enterprise zones are restricted to very specific sites for specific industries which means authorities need to second guess what type of sites are best suited to that industry for specific sites. It would be useful if the requirement to list specific sites were removed and stated more broadly. This would broaden the impact of enterprise zones to attract more investment but it would also increase the cost of the scheme in lost income to the non-domestic rates pool. There would be benefits in supporting business an investment.

<u>Business Rates Incentivisation Scheme</u>
The Business Rates Incentivisation Scheme (BRIS) is complex and its results in terms of local rates retention are unpredictable. There is no evidence that it has any effect in encouraging successful economic development, or making economic development activity more effective. Any areas which are fortunate to be doing well get rewarded again and areas which are struggling to achieve targets do not get any benefit. In some areas attracting large business is extremely challenging and often a local authority has no control over the critical factors which impact big businesses decisions regarding potential investment opportunities. It is easier to incentivise big businesses to invest in urban areas and therefore rural authorities are disadvantaged by the scheme. BRIS does not work in our view. Councils are already naturally incentivised to attract new businesses to their areas. BRIS makes the overall distribution of funds inequitable. There would be no costs in getting rid of BRIS as it solely affects the distribution of rates income and there is no impact on the level of rates payable.

<u>Tax Incremental Funding</u>
There is a lack of evidence that Tax Incremental Funding (TIF) schemes nationally are particularly effective at generating new development which is self-financing. In our experience changes in rates relief can affect the amount of rates income predicted from development. TIFs therefore carry major risks around borrowing against projected TIF revenues if the latter are overly optimistic (e.g. because of unanticipated rates relief changes and if growth doesn't match projections). Legal and financial uncertainties resulting from default could create serious problems. There may be better alternatives for funding developments.

<u>Timeshare Units</u>
Timeshares should be entered in Non-Domestic Rates (NDR) valuation roll as a single entry. This would stop individual timeshare units being entitled to 100% small business bonus scheme (SBBS) relief and no rates being payable. Timeshares typically compete against hotels and other self-catering properties but have a very favourable rates treatment which benefits this particular form of governance. Typically they are operated as a single business administered by a single entity but each individual unit is entered separately onto the valuation roll rather than having a consolidated entry as in the past. This treatment changed a number of years ago. Administration costs would also be reduced as local authorities could bill the timeshare operators with one bill for all of the units. This would increase revenue to the Scottish NDR pool and provide a fairer treatment against other businesses operating in the hospitality sector.

<u>Self-catering properties</u>
Self-catering properties typically have a low rateable value which entitles them to receive 100% small business bonus scheme (SBBS) relief and no rates are payable unless a large number of such properties or other businesses are owned/occupied. This contrasts with the tax treatment of a similar property used as a person's sole or main residence. This favourable treatment of self-catering properties encourages owners to

use them this way rather than make them available for long term lets, and this may adversely affect housing supply in some areas. We would suggest that SBBS relief is removed for domestic dwellings to allow more equity in the tax treatment of such properties between short term holiday lets and long term lets. This would increase the total income from NDR.