The Scottish Parliament
Pàrlamaid na h-Alba

LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

AGENDA

2nd Meeting, 2011 (Session 3)

Wednesday 19 January 2011

The Committee will meet at 10.00 am in Committee Room 6.

1. **Subordinate legislation:** The Committee will take evidence on the Non-Domestic Rates (Levying) (Scotland) (No.3) Regulations 2010 (SSI 2010/441) from—

   Colin Borland, Public Affairs Manager Scotland, Federation of Small Businesses;

   Fiona Moriarty, Director, Scottish Retail Consortium;

   Tom Ironside, Director of Business and Regulation, British Retail Consortium.

2. **Property Factors (Scotland) Bill:** The Committee will consider the Bill at Stage 2 (Day 1).

Susan Duffy
Clerk to the Local Government and Communities Committee
Room T3.60
The Scottish Parliament
Edinburgh
Tel: 0131 348 5217
Email: susan.duffy@scottish.parliament.uk

The papers for this meeting are as follows—

Agenda item 1

SSI 2010/441 evidence paper	LGC/S3/11/2/1
PRIVATE PAPER	LGC/S3/11/2/2 (P)

The Non-Domestic Rates (Levying) (Scotland) (No. 3) Regulations 2010

Local Government and Communities Committee

2nd Meeting, 2011 (Session 3), Wednesday, 19 January 2011

Written submissions on the Non-Domestic Rates (Levying) (Scotland) Regulations 2010 (SSI 2010/441)

1. Four written submission have been received on the Non-Domestic Rates (Levying) (Scotland) Regulations 2010 (SSI 2010/441) from:

- Alliance Boots
- British Land Company
- The Federation of Small Businesses
- The Scottish Retail Consortium

2. These written submissions are attached.

Katy Orr
Senior Assistant Clerk

SUBMISSION FROM ALLIANCE BOOTS

1. As you will be aware, the Scottish Government has announced their proposals for the new levels of business rates, including a new levy on larger retailers. As a major employer in Scotland I wanted to write to you regarding our concerns on this issue.

2. Although John Swinney has given reassurances that this levy is expected to affect supermarkets and out-of-town centres, along with many other retailers, we are worried about the impact on the broader retail community. Our store in Princes Street would be targeted with the Levy, a unit that could not be viewed as 'out-of-town' or 'supermarket' in character?

3. I would be grateful if you would consider, as an early priority in your work programme, devoting some dedicated time to examining this issue, as the formal process for subordinate legislation allows relatively little scrutiny of the impact on retail business, and resulting issues for city centres and the economy

4. I entirely appreciate the important role that the Local Government and Communities Committee will have as the designated lead committee; however I hope that given your Committee's remit you may see it appropriate to consider the issue in parallel.

5. The Scottish Government has not brought forward any impact assessment, and in the context of the current economic circumstances, we are concerned that the impact has not been given due consideration.

6. I'm sure you will have seen the recent announcements at Westminster on a Localism and Decentralisation Bill, which will put similar proposals through a primary legislation process, and we are concerned that changes in Scotland are being pursued in a way that allows for a lesser level of Parliamentary scrutiny and business consultation.

7. I hope you can find an opportunity to consider this important issue for high street retailers, and if it would be beneficial to that consideration, we would be very happy to meet with you, or discuss with your Committee, our concerns in more detail, if you would find it helpful.

Alex Gourlay
Chief Executive of the Health & Beauty Division. Alliance Boots

20 December 2010

SUBMISSION FROM BRITISH LAND COMPANY

1. This submission has been prepared by the British Land Company PLC. British Land is an investment company that manages, owns, finances and develops prime commercial property.

2. British Land has a long-standing presence in Scotland. Our interests include Cuckoo Bridge Retail Park near Dumfries, Elgin Retail Park, Fort Kinnaird Shopping Park in Edinburgh, Glasgow Fort Shopping Park, Inverness Retail Park, St James Retail Park in Dumbarton as well as the Bon Accord and St Nicholas shopping centres in Aberdeen through the Scottish Retail Partnership joint venture, in all over £800m of investment.

3. Combined, British Land's major Scottish retail sites (excluding shopping centres) attract roughly 46 million visitors a year – about 9 times the population of Scotland – employ over 4,000 people and generate about £750 million a year in sales. Plans in place for new development which could create employment in some of the more deprived areas in Scotland may be affected by these unexpected additional costs to occupiers.

4. British Land is concerned about the Scottish Government's plans to increase the business poundage rate for large retail developments. The Government has stated it intends to raise £30 million from the increased tax.

5. British Land recognises the tough fiscal environment and the need for government at all levels to reduce the deficit and find savings. However, we believe that the chosen vehicle will prove counter-productive. The proposed increase in business rates for large retail properties threatens to reduce the attractiveness of Scotland for retail investment at a critical time when private sector investment is expected to fill the void left by public sector cuts. It also increases the perception of regulatory and fiscal uncertainty, which can undermine investor confidence.

6. Research indicates that the levy is likely to affect many retailers beyond the supermarkets apparently targeted by the Scottish Government. Ryden has estimated that 31 companies, including department stores and High Street shops will also be liable for the tax.

7. Retailers are already facing massive uncertainties: rising inflation, the rise in VAT, and a disappointing Christmas period thanks to the weather. The proposed tax changes risk worsening a difficult environment.

8. British Land hopes the Scottish Parliament will reconsider this proposal and examine other means of tackling the fiscal problem that do not risk undermining one of the engines for economic growth. It is vital that Scottish retail centres do not face a competitive disadvantage compared with their English counterparts.

British Land Company, 14 January 2011

SUBMISSION FROM THE FEDERATION OF SMALL BUSINESSES

Introduction

1. The FSB is Scotland's largest direct-member business organisation, representing around 20,000 members in every area and every sector of the economy. The FSB campaigns for an economic and social environment which allows small businesses to grow and prosper.

2. Small businesses (those with fewer than 50 employees) in Scotland number 290,845 and make up 98% of all enterprises, providing 42% of private sector employment[1].

3. As the only major business organisation which exclusively represents the small, independent business community, we welcome the opportunity to submit written evidence to the Local Government and Communities Committee on the above regulations.

Proportionality

4. According to the FSB 2009 Annual Member Survey[2], around 53% of our members do not pay any Non-Domestic Rates. This is chiefly because they receive 100% relief under the Small Business Bonus (SBB) or do not have business premises.

5. However, of those who do pay rates, nearly half see it as a major barrier to the success of their business. This suggests that, despite the progress made with the SBB, rates are still a disproportionately higher burden for the smallest rates-paying businesses.

6. Contrast this with the 225 large retail properties which are likely to be liable for the proposed business rates supplement who, according to Scottish Government calculations, have Non-Domestic Rates bills which account on average for only around two per cent of their turnover.[3]

7. The FSB has therefore welcomed the principle of a stepped retail poundage supplement for the largest retailers with a rateable value exceeding £750,000 as a move towards the introduction of a more progressive, proportionate system of business taxation in Scotland.

8. At a time when rising overheads are further squeezing margins in local small businesses, when cash-flow is tight and financial reserves depleted, it is now more important than ever that the playing field is levelled wherever possible.

Precedent

9. The large business supplement (currently a 0.7p increase on the poundage on properties with a rateable value in excess of £35,000), has already introduced an

[1] Scottish Corporate Sector Statistics 2010

[2] FSB-ICM 'Voice of Small Business' Annual Survey Report of Key Findings from Members in Scotland

[3] Scottish Parliament Business Research Briefing SB10-93

element of redistribution into the system, part funding, as it does, the SBB for the business premises with the lowest rateable values.

10. This has not, as far as we are aware, given rise to major problems with the operation of the Non-Domestic Rates system.

High Street Impact

11. We note that the proposal has been criticised on the basis that it will not simply apply to the largest out-of-town retailers at whom it was aimed, but will extend to some larger high street retailers.

12. We are always wary of the unintended consequences of any legislative moves, but it is difficult for us to comment in detail as we are unable to obtain the definitive list which properties will and will not be subject to the poundage supplement.

13. That said, publicly quoted figures suggest that around 86% of the revenue expected to be generated through the supplement will come from the big four supermarkets.[4]

The future

14. We appreciate that there are many pressing calls on the public finances at present. However, the FSB has argued that it would be in Scotland's long-term economic interests to use any additional funds raised under this levy specifically for town centre redevelopment and local infrastructure improvements.

15. As regards the wider debate on Non-Domestic Rates, the FSB acknowledges that this move is another step along the road to a fairer system. It is not, of course, in itself the complete answer and we believe there is scope to look at the question of proportionality in the round.

16. For an exploration of some of the wider issues around how the system operates and how it could be improved, see our September 2010 discussion paper on the 2010 Revaluation[5].

Federation of Small Businesses
18 January 2011

[4] "Supermarkets see red over 'supermarket tax'", *The Times,* 11 January 2011. This contains figures which state that Tesco would pay £9m, Asda £8.8m, Morrisons £4.4m and Sainsbury's £3.5m. A total bill of £25.7m, from a total bill of £30 million pounds – 85.6% of the total.

[5] FSB Discussion Paper: Non Domestic Rates – Revaluation 2010

SUBMISSION FROM THE SCOTTISH RETAIL CONSORTIUM

About the SRC

1. The Scottish Retail Consortium (SRC) is the lead trade association representing the whole range of retailers in Scotland, from independents through to the large multiples and department stores, selling a wide selection of products through centre of town, out of town, rural and virtual stores.

Overview

2. The SRC welcomes this opportunity to provide evidence to the Local Government and Communities Committee on the Non-Domestic Rates (Levying) (Scotland) (No.3) Regulations 2010. Our views in relation to the proposed Large Retailer Supplement are set out in the following sections below:

   - **Retail and the economy**
   - **Impact of the proposal**
   - **An ineffective solution**
   - **Legal considerations**

3. We would be pleased to provide additional information in any area to support this evidence.

Retail and the Economy

- **Retailers are intensive users of property in Scotland.**
- **Retailers are key employers, contributing significantly to the maintenance and creation of high quality jobs.**

4. **The sector already faces significant economic challenges and new fiscal burdens.**

5. **Retail is a property intensive sector:** Retail is a particularly property intensive sector, with outlets generally restricted to accessible locations, such as town centres or retail parks. Other non domestic ratepayers often have a far wider choice of site in which to locate. This restricts the market for retail property, raising both property costs and non-domestic rates to significantly higher levels than average.

6. Retailers already pay around a quarter of all business rates in Scotland, the highest proportion of any sector. The proposed supplement would only exacerbate the disproportionate nature of the burden which falls on parts of the retail sector. A number of SRC members have provided estimates of the additional costs which will result from this supplement. Dependent on the number, location and profile of the stores in question, the estimates of company impacts range from £2 million to £8 million for the year in question.

7. Many retailers have already seen significant uplifts in their business rates liabilities in recent months. The impact of Revaluation, the abolition of transitional arrangements and the introduction of Business Improvement Districts have each led to substantial increases. These increases will compounded by the 4.6% increase in the poundage rate which takes effect from 1 April 2011.

8. **Retail is a key employer**: The sector plays a vital role in maintaining and creating employment in Scotland. Around 11% of the Scottish workforce (250,000 jobs) are in the retail sector. At a time when many Scottish firms are experiencing considerable difficulty in maintaining employment levels, it is vital that the Government ensures that the right conditions exist for the sector to maximise its contribution to the economic recovery through encouraging job creation and investment. Any additional costs, such as those proposed in this levy, will inevitably hamper that contribution.

9. It is important also to emphasise the range of opportunities offered by the retail sector. Retail provides excellent jobs for people from a very diverse range of backgrounds in perhaps the broadest range of geographical locations of any sector. In so doing, the sector makes a concrete contribution to providing employment in some of the country's most deprived communities.

10. Retail makes a significant contribution to tackling youth unemployment, with 88,000 Scottish retail workers under 25 years of age. Of these, 49% have their highest qualification at SVQ level 3. Only 4% have no qualifications.

11. **Significant economic challenges**: The outlook for retail in Scotland is already uncertain. Crucially consumer confidence will continue to be fragile for some time to come, especially in view of the increases in VAT and NI contributions. Given a weak UK housing market and consumer nervousness about austerity measures, it's difficult to envisage a further depletion of savings boosting consumption in the months to come. In addition, earnings growth has remained weak during the past year and unemployment remains higher than before the recession.

12. Retailers will have to do all that they can to absorb the costs impacting on them if they to encourage consumers to spend in 2011. Against this backdrop, additional burdens are particularly undesirable and limit the scope for retail investment.

Impact of the Proposal

- **The proposed levy discriminates unfairly between different sectors of the economy.**

- **The new supplement would create significant budgeting difficulties for the businesses affected.**

13. **The proposal is inequitable**: The new supplement would unfairly levy significant additional business rates on properties in a specific part of one sector. Business rates are a tax on the occupation and use of property. Objectively, nothing has changed in relation to the use of retail properties which would warrant the imposition

of this levy on retail properties with a rateable value in excess of £750,000. No persuasive rationale has been presented for either the selection of the retail sector or the rateable value threshold.

14. The decision to target individual sectors of the economy inevitably sends out worrying signals to existing and potential investors. Applying this levy solely to large retail properties is short-sighted and counter productive, particularly when private sector investment and job creation are essential to the ongoing economic recovery. It will inevitably undermine the Scottish Government's stated aim of ensuring that the country is the "most attractive place for doing business in Europe".

15. Undermining investor confidence is particularly unwelcome in the current economic conditions. For the companies affected, the introduction of this levy makes Scotland a more expensive market in which to operate than elsewhere in the UK. It also leads the business community to ask which other sectors may be targeted in the future for other sector specific levies?

16. **Notice and budgeting**: The Scottish Government's decision to announce this measure as part of the Budget process in late November without any form of associated consultation was particularly unwelcome. As a result the companies affected have inevitably been given extremely limited notice of the proposed levy. They had, without exception, finalised and set their own property budgets for the coming financial year by the time of the announcement. This absence of transparency has been compounded by the Scottish Government's decision not to provide a detailed Business and Regulatory Impact Assessment taking into account the implications for both marginal investment and job creation. This displays a lack of due consideration and transparency.

An Ineffective Solution

- **The levy is not a targeted out of town tax.**

- **The levy does not create a level playing field between large and small businesses.**

17. **The levy is not a targeted out of town tax**: The original presentation of the policy to Parliament was confusing and misleading. The proposal was presented as a levy on out of town retail. There was a clear implication that this would in turn support town centres. This has since been demonstrated to be incorrect. The tax will be paid by all retailers with properties that have rateable values over £750,000, irrespective of where they are located. The proposed levy makes no differentiation between town centre, edge of town or out of town retailers. Neither does it make distinctions between types of retailers. Some of the properties making the largest contributions would be retailers located in town centre locations.

18. **The levy does not contribute to a level playing field between large and small retailers**: In the explanatory notes to the Order and the accompanying media note, the Scottish Government sought to explain that the supplement "will contribute

towards the cost of supporting front line services provided by councils and the continuation of the Small Business Bonus Scheme in 2011/12".

19. This does not accurately reflect the position. The reality is that all of the businesses now subject to the additional levy would, in any event, have paid the Large Business Supplement. This supplement in turn currently funds the Small Business Bonus Scheme, despite the fact that, as a result of the proposed levy, the minimum contribution from retail businesses affected would rise from 0.7p to 2.5p.

20. Retailers recognise that in the current challenging economic climate it is more important than ever for the Scottish Government to ensure that its finances are well managed. At the same time, the Government must provide an environment that is conducive to a sustainable economic recovery.

Legal Considerations

21. In the course of our broader consideration of this proposal, a number of SRC members have highlighted the need to more fully understand its legal implications. This activity is currently ongoing.

Fiona Moriarty
Director – SRC

Tom Ironside
Director – Business and Regulation

14 January 2011