

# Reform of business rates (Barclay Review)

## Introduction

Non-domestic (better known as business) rates are a tax based on property which is levied in order to help pay for council services. The amount they pay is generally based on the open market rental value of the property, as calculated by assessors who work for independent local valuation boards. The poundage rate is set by Scottish Ministers and raises around £2.8bn each year. Some property is exempt and others qualify for reliefs worth some £600m per year. The collection rate is high at 98%.

Business rates now bring in significantly more revenue than the council tax, due to the council tax freeze. However, the government has also increased the value of business rate reliefs, primarily through the Small Business Bonus Scheme.

The Scottish Government established a review chaired by Ken Barclay with the following remit:

*“To make recommendations that seek to enhance and reform the non-domestic rates (also sometimes referred to as business rates) system in Scotland to better support business growth and long term investment and reflect changing marketplaces, whilst still retaining the same level of income to deliver local services upon which businesses rely.”*

## Supporting economic growth

The report recommends that there should be three yearly revaluations, something UNISON has long argued for. The same should apply to the council tax on domestic properties. They also recommend reducing the large business supplement and helpfully question the effectiveness of the Small Business Bonus Scheme. UNISON has argued that the government has thrown huge sums of money at this scheme that could have gone into councils, with little evaluation of its merits. A review in Northern Ireland has found that this relief could be better directed.

Town centres and day nurseries should get new relief from business rates. It is perfectly reasonable to use tax reliefs to encourage particular policies and early years provision is a key element of tackling inequality. However, such support should come with at least some strings. The Scottish Living Wage would be a good start for the notoriously poor employment practices in many day nurseries.

## Administration

In the main these are sensible recommendations to improve the administration of the system, through better information, transparency and speeding up appeals and repayments. Making the failure to provide information a civil rather than a criminal matter is less obviously a good thing, although wider powers to get information are. Big companies have obviously lobbied for consistency, but this should remain a local system – not another new quango.



## KEY POINTS:

- **Business rates fund a significant proportion of council services**
- **Review recommends revenue neutral changes to improve the system.**
- **Significant changes to charitable reliefs, including council leisure trusts.**
- **ScotGov to consider recommendations. Further consultation and legislation likely.**



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## Increasing Fairness

A general anti-avoidance rule and plugging several well known tax dodges is a sensible recommendation. The report also recommends action on empty properties and measures to encourage landlords to bring property back into economic activity. These have been criticised by the business lobby, but the recommendations could have been much tougher.

The media headlines focus on the recommendation to restrict charitable relief. Private schools have come out with a predictable defence of their status. It's not the purpose of charitable status to perpetuate the inequalities in our society that private schools sustain.

Equally significant is the inclusion of sport and leisure facilities in this change. This will have a significant impact on leisure trusts and council budgets. Despite the claimed benefits of these organisations, the primary driver was tax dodging. If this loophole is plugged, as we warned it might, then councils should be taking these services back under direct control. However, this was one of the ways that councils coped with cuts to their budgets, therefore there would need to be compensatory budget uplift from the Scottish Government.

A new test for private sports clubs of providing genuine community benefit is a welcome change as well.

## More radical change

The review largely tinkers with the current system rather than propose radical change to the system. They came to "*An over-arching conclusion that we reached is that some form of property tax is still an appropriate way to fund the local services provided by councils*". Not a point that UNISON would disagree with. Advocates of a Land Value Tax will be disappointed, but the report explains why it didn't recommend such a change and these are consistent with similar reviews on local taxation.

The report helpfully puts the cost of business rates into context. While non-domestic rates raise a larger amount of revenues than is typical for commercial property taxes across the OECD, the total taxes paid by UK businesses (as a % of commercial profits) are lower than averages for both the OECD and the EU. While businesses pay relatively high amounts of property tax, they pay relatively low amounts of other taxes (e.g. corporation tax).

Very limited consideration was given in the report to returning business rates to local control, as UNISON has argued for. The report emphasises the benefits to councils of little revenue risk. However, this could also be addressed through an equalisation scheme that shares risk.

## Conclusion

While the recommendations in this review could be viewed as less than radical, it did operate under a limited remit. Most of the recommendations are sensible improvements to the system and address some long standing weaknesses. This report obviously impacts on members working in Joint Valuation Boards, although the biggest impact may prove to be for members in leisure trusts.

The Scottish Government will need to consider the recommendations, some of which will need further consultation and legislation. Branches should therefore consult the members concerned and feed views back to the Bargaining & Campaigns Team.

### Further info

#### Barclay Report

<http://www.gov.scot/Publications/2017/08/3435>

#### Who is saying what about the review

<http://www.bbc.co.uk/news/uk-scotland-scotland-politics-41010247>

#### Commission on Local Tax Reform

<http://localtaxcommission.scot>



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