

Barclay Review of Business Rates

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 from Scottish Borders Council

Scottish Borders Council, which currently has over 7000 rateable business within its local authority area welcomes the opportunity to respond to this consultation.

The valuation, levy and collection of Business Rates are essential to funding local authority services across Scotland. The Council supports the Scottish Government's view that any changes proposed should be cost neutral therefore protecting the tax base.

Simplicity and transparency

There is a demand for simplicity in the rates system. The Council receives consistent feedback from ratepayers that the system is too complicated and they struggle to understand it. This is especially so in relation to the valuation process/cycles, the reliefs and exemptions available and confusion between the responsibilities of the Scottish Government, the Assessors and the Rating Authorities (Local Authorities).

Based on current legislation there are certain types of non-domestic property that are exempt from rating and therefore do not feature in the valuation roll. It would serve the interests of equity and give greater transparency in the rating system for **all** non-domestic properties to be entered in the valuation roll. This would give the Scottish Government the option to apply reliefs in a more focused and quantifiable manner. This would allow the full financial benefit across all sectors to be analysed.

Changes to the system which give greater transparency, aids better understanding and is simple to navigate would support businesses in taking key decisions around growth and investment.

The rates calculator on myscot.gov should be better promoted.

Exemptions and reliefs

This is the area of the rates system which has become complicated over time with a range of current exemptions and reliefs, some which have not changed for considerable years, some which have been amended and added to over time, and some which are relatively new. The Council recognises the huge importance of exemptions and reliefs and the wide coverage these have. However, a complete review of the exemptions and reliefs would be welcomed to ensure they are targeting those most in need, are fit for purpose in the current economic environment and have the right amount of flexibility.

The exemptions and reliefs also need to work with together rather than on occasions skewing the property profile within areas. An example of this is the listed building exemption creating a disincentive to rent properties which can impact on the viability and desirability of a commercial area. This can result in other reliefs and exemptions having minimal impact on encouraging occupation.

Small Business Bonus Scheme:

Scottish Borders Council is very supportive of the current Small Business Bonus Scheme and would like to see it continue with perhaps a few modifications. The relief has benefited a great number of businesses across the towns and villages within the Scottish Borders and continues to do so.

Feedback from businesses suggest that the current thresholds can have quite a negative effect, in that the level of increase in rates can be quite substantial for a small business when they exceed the thresholds. This is especially so if a small business is looking to expand into an additional property and therefore it may restrict growth in some circumstances. A re-structure of thresholds which provides an easier transition to growing businesses would be welcome.

The other issue with this relief is one of inequity in that it protects small businesses from the Empty Property Rate. This is a key issue when looking at the vibrancy of our town centres and High Streets and the Council would like to see some consideration given to reviewing this. Consideration should be given to this relief only being available for small business premises which are in use or for a very limited period after cessation of use. Alternatively those that are not in use should be liable for the Empty Property Rate and any relevant exemption in the normal manner. Addressing this anomaly would in part incentivise earlier property re-letting whilst reducing the existing SBBS cost thereby allowing a wider application of SBBS.

Empty Relief:

Linked to the above the Council recognises the challenges that businesses have with empty properties and the current levels of Empty Property Rate. Rather than a blanket, unlimited relief for small businesses, as above, consideration should be given to a more targeted relief which supports those owners who are taking reasonable, active steps to try and market their property or penalises owners who leave properties unoccupied for long periods. This could be a similar approach to that which is taken with the increased levy for long-term empty homes for Council Tax. And could tie in with other forms of support the Council and its partners can offer.

Some of the other exempt categories should also be considered for change. Listed buildings for example get unlimited exemption from the Empty Property Rate and when looking at some of our challenging High Streets a number of the buildings have been empty for a considerable amount of time, are listed so no rates are payable and there is therefore no incentive for owners to bring them back into use and market them. The Council recognise the difficulty with listed buildings however, it wishes to see these old buildings reused or moved on to new owners for development. A time limit on this type of exemption would be welcomed and would encourage quick development or disposal of these buildings.

Charitable and Disabled Persons Relief

Although recognising the need for these types of reliefs a review is required. Both have remained unchanged for years and are now out-dated in terms of current practice and their aims.

Commercial areas can be negatively affected by an oversupply of these types of charitable businesses which then makes the rental of properties and the diversification of trading types more difficult to achieve. A review of charitable relief aimed at limiting charitable businesses and encouraging variety and diversification in commercial areas, especially High Streets, with the aim of attracting customers and visitors would be welcomed.

Rural Relief

The Council strongly supports this type of relief which, from an assessment perspective works very well, and is seen by ratepayers as critical support to sustaining businesses and infrastructure within rural communities.

Fresh Start/New Build Relief

Although awareness of these new reliefs is still low, these two new types of relief have been welcomed in encouraging businesses to take on either previously long-term empty or encouraging new business premises. However, from an eligibility perspective the legislation, as it is worded, is very prescriptive which has caused some issues with new ratepayers being eligible for the relief. For Fresh Start relief the legislation states that a property must have been in receipt of Empty Property Relief for the last twelve months. However, properties may have been empty for the last twelve months without Empty Property Relief being applied. It may be that this is an unintended consequence of the current legislation and a rewording of this would be welcomed.

Fresh start relief is also restricted to those properties which were previously, or will be, used as a shop, office, restaurant, pub or hotel with a rateable value of less than £65,000. Like other local authorities Scottish Borders Council is looking to attract Inward Investment through promotion of its industrial sites. To encourage further investment, a widening of the criteria for fresh start relief would be welcomed.

The final point in relation to reliefs is the connection between rental levels and rates. There is often confusion between rent and rates and the application of relief and, on occasions, awarding relief may have no impact as the rent remains an issue. Exploring options for a better link between rents and levels of support should be considered.

Valuation

In order to better reflect changing market conditions, it would be helpful if more frequent valuations were carried out. This would impact on the work of the Assessors and any increased requirement for resources would need to be met from other changes to the rates system.

Payment and Recovery

The Council would welcome a review of legislation relating to instalments and non-payment of rates and believe a fair approach would be to bring this in line with Council Tax. In particular, rates should payable over 10 or 12 monthly instalments with annual payment in May rather than October.

Financing new types of support for businesses

Work is currently progressing across the region on establishing incubator/innovation units to encourage growth in small businesses. This is likely to provide reasonable terms for property rental based on a programme of support for these businesses. The Council is keen to prevent a rates liability being a deterrent to this type of business and property. Whether through valuation arrangements or exemptions/reliefs the Council would welcome support to encourage growth in this way.

As stated above, by reviewing some of the existing relief types and taking a more focussed approach based on need, the Scottish Government could look at new types of support which support businesses to grow and incentivise investment.

In addition to this, consideration must be given to strengthening the system to minimise the opportunity for ratepayers to avoid a rates liability. By ensuring that all businesses pay their fair share, the amount of income available to further support specific types of business, specific sectors or certain areas can be maximised.

Examples of rates avoidance include:

Phoenix Companies – certain properties are continually occupied by ratepayers who trade for a short period of time, cease to trade then re-open as a different company but with the same(or similar) trading name. These traders are usually protected by company law and, although not doing anything illegal, ensure that no contribution via rates is made to the local economy.

Small Business Bonus Scheme – the granting of this type of relief is based on the sum of the rateable values of all the properties occupied by the business. However, to ensure entitlement of this type of relief part of the business can be transferred to another company name, but with the same director or owner. This also applies to franchise companies and, although allowable, it should be considered whether this was really an intention of the legislation.

Finally, a further option for financing support for businesses that is worthy of consideration, and would naturally link to the new discretionary powers awarded to local authorities under the Community Empowerment Act, is to ask larger businesses to pay an additional levy. This would be on a voluntary basis and would go directly to fund local schemes focussed on developing other businesses. This could form part of the Corporate Social Responsibility of larger businesses.