

Mr James Dornan MSP
Convener
Local Government and Communities Committee
The Scottish Parliament
Edinburgh
EH99 1SP

18 December 2019

Dear James,

Non-Domestic Rates (Scotland) Bill

On behalf of the Federation of Small Businesses (FSB) in Scotland, I write to you to outline our concerns regarding the significant changes to the Non-Domestic Rates (Scotland) Bill that the Local Government committee approved at Stage 2, with specific reference to amendment 9.

The policy objectives of the Non-Domestic Rates (Scotland) Bill – as stated in the policy memorandum - are to:

- deliver a non-domestic rates system designed to better support business growth and long-term investment and reflect changing marketplaces;
- improve ratepayers experience of the rating system and administration of the system;
- increase fairness and ensure a level playing field amongst ratepayers by reforming rate reliefs and tackling known avoidance measures.

It is our view that Amendment 9 is in conflict with these objectives.

In correspondence to the committee sent on 29 November, the Minister for Public Finance Kate Forbes MSP outlined the consequences of this amendment, warning that it: "would have the effect of removing the Scottish Government's ability to provide national reliefs and on commencement would immediately abolish widely regarded and high profile reliefs such as the Small Business Bonus Scheme".

FSB survey work with businesses in receipt of the Small Businesses Bonus show that about a fifth of small firms warn that they would close their business if the important relief was cancelled. Similar proportions of businesses – 18.3 per cent

and 19.9 per cent – warn that ending this vital relief would force them to change their plans for growth or cancel planned business investment.

The policy rationale for a small business rate relief remains that rates are a more substantial burden for smaller operators than bigger businesses. This argument holds across all of Scotland’s council areas, and therefore we believe that there is a clear role for a national scheme.

The ongoing review of the Small Business Bonus scheme (SBBS) offers an opportunity to ensure the relief is delivering as it should for Scotland’s small business community. However it is difficult to understand how the recommendations of this review could be implemented should control of rates reliefs be passed to local authorities.

It has been suggested that it was not the committee’s intention to end important nationwide reliefs, such as the SBBS but also rates support for operators like day nurseries. Rather, the policy intention – though unfortunately not reflected in the legislation as it stands – is to allow local authorities to vary the poundage rates.

This change – though less damaging than the cancellation of nationwide reliefs – would be of considerable significance both for councils and for the wider business community. It is difficult to imagine how this move would not make the rates system more complex and less easy to understand.

As far as we are aware there has been no detailed modelling or governmental consultation regarding the costs or impact of this change for either ratepayers or local authorities. We believe that this proposal would have significant implications for both and, as such, we would expect to see, as a minimum, an impact assessment prior to any legislative change.

As you will understand, many of our members fear that local authority decision-makers would be tempted to deliver poundage increases over the rate of inflation. This would put pressure on many businesses, but especially smaller operators outside the scope of SBBS help.

It is our view that given the significance of this change and its apparent incompatibility with the remainder of the Non-Domestic Rates (Scotland) Bill, at the very least MSPs should consider the merits or otherwise of this proposal separately.

The Non-Domestic Rates (Scotland) Bill was heavily informed by the Barclay review which specifically ruled out the localisation of the rates system. As a consequence, FSB and Scotland's wider business community will be dismayed should reliefs or poundages be passed to local authorities without adequate parliamentary scrutiny.

At Stage 3, FSB would urge MSPs to return the Bill to a form which reflects its policy intentions to deliver practical improvements to the Scottish Non-Domestic Rates system.

Yours sincerely,



Andrew McRae
Chair, Scotland Policy Unit
Federation of Small Businesses (FSB)