



# SCOTTISH RETAIL CONSORTIUM RESPONSE TO THE COMMISSION ON LOCAL TAX REFORM'S CALL FOR WRITTEN EVIDENCE

## INTRODUCTION

1. Retail is an exciting, diverse and dynamic industry undergoing transformational change. The SRC is at the forefront – enhancing, assisting, informing and shaping. Our mission is to make a positive difference to the retail industry and to the customers it serves. Our broad range of stakeholders demonstrates how retailing touches almost every aspect of our culture. The SRC leads the industry and works with our members to shape debates and influence issues and opportunities that will help make that positive difference. We care about the careers of people who work in our industry, the communities retail touches and competitiveness as a fundamental principle of the industry's success – our 3Cs.
2. In addition to publishing leading indicators on retail sales, footfall and shop vacancies in town centres, our policy positions are informed by our 255-strong membership and determined by the SRC's Board.
3. The SRC welcomes the opportunity to contribute to the Commission's deliberations and looks forward to the options paper which we understand will be published later this year.
4. The retail industry, which employs people in every part of Scotland, takes great interest in local government finance and household taxation issues for several reasons, including:
  - the impact on discretionary spending and disposable incomes, given that the existing council tax raises £1.9bn each year;
  - retail is a property-intensive industry and contributes a quarter of all revenues from non-domestic rates, which has risen to £2.8bn<sup>1</sup>;
  - local authorities have considerable responsibilities and power which can affect the health of the retail industry e.g. over building standards, land use planning, town centres, regulatory enforcement, parking charges
  - retailers contribute through charges, fees and levies for local government services (e.g. planning applications<sup>2</sup>, building warrants, alcohol licences) and through compulsory BID levies for other locally determined services
5. The SRC has previously voiced its support<sup>3</sup> for the Scottish Government's council tax freeze as a means of keeping down the cost of living for households and assuaging public dissatisfaction with previous inflation-busting rises in council tax.

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<sup>1</sup> Scottish Government's Draft Budget for 2015/16, October 2014

<sup>2</sup> Commercial planning application fees have increased by 25% over the past 2 years in Scotland

<sup>3</sup> SRC's submission on the Scottish Government's Budget, June 2014.

Scottish Retail Consortium  
Box 112, 12 South Bridge  
Edinburgh, EH1 1DD

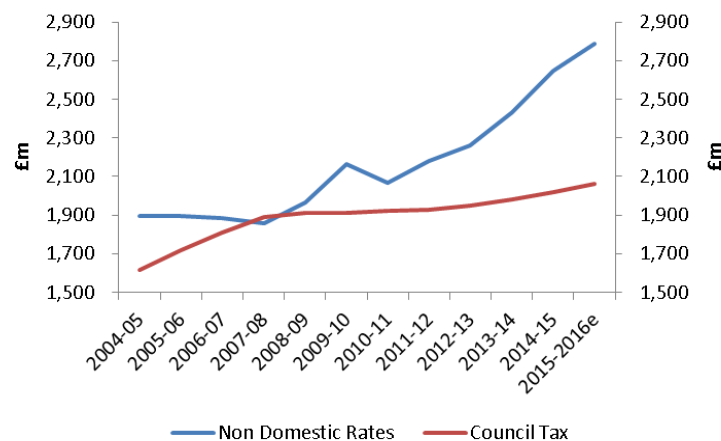
[scottishretail.org.uk](http://scottishretail.org.uk)

21 Dartmouth Street, London SW1H 9BP  
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6. In light of the long-term budgetary pressures on local authorities (e.g. supporting an ageing population, maintaining and enhancing infrastructure), ever rising demands for better services and the constraints on the public purse, we recognise the need for local authorities to think differently about how and which services they deliver, how they deploy their resources as efficiently as possible and reduce costs. Thinking differently about the provision of local services can lead to less pressure to increase council tax or charges and levies, and without negatively impacting on the quality of services<sup>4</sup>.

## KEY MESSAGES

7. The Scottish Government and CoSLA are to be commended for establishing the Commission and seeking to grapple with an issue that has proved challenging for successive governments. It is however surprising that the Commission is examining council tax in isolation and has not been tasked with looking afresh at local taxation in the round.
8. The SRC wants to see the collective energies of our politicians similarly channelled into radical thinking on another important aspect of local taxation, namely fundamental reform<sup>5</sup> of the £2.8 billion non-domestic rates system. Increases in business rates<sup>6</sup> have been wholly out of step with the other property-based local tax (see graph below), with rates rises tied to an escalator whilst council tax has been frozen. This is not good for investment or job creation and is being compounded by the fact there are new and less expensive routes to market. This has implications for the future of our high streets, shopping malls and retail parks but also potentially for future tax revenues that fund local government.
9. Since 2007-08 there has been a 50 per cent increase in the tax revenue from business rates<sup>7</sup> compared to a 9 per cent increase in council tax revenues, with businesses<sup>8</sup> disproportionately picking up a greater share of local authority funding. We have deep reservations about this discrepancy, and certainly do not want to see it extended further.



10. The SRC wants to see effective, efficient and properly funded local government in Scotland. Given the sheer breadth of statutory responsibilities that local authorities face it seems sensible that the bulk of local government funding should continue to come from central government.

<sup>4</sup> The proportion of the public in Scotland satisfied with local authority services increased between 2009 and 2013 according to the Scottish Household Survey.

<sup>5</sup> Following the First Minister's request for 'new thinking' on domestic public policy, the SRC recently published *Business Rates: Fundamental Reform* which sets out the case for reform and highlights growing support from across other industry sectors.

<sup>6</sup> The not-for-profit International Property Tax Institute claims tax on property in the UK as a percentage of all taxation is higher than in other OECD countries, with commercial properties picking up a disproportionate burden.

<sup>7</sup> Whilst we remain wholly against repatriation of control over the business rate to councils, we have supported BIDs and the resuscitation of the Business Rates Incentivisation Scheme. We note that business rates have been subject to periodic revaluation, whilst council tax has not.

<sup>8</sup> At the same time as business rates have risen firms have also faced higher statutory costs in the form of increases to the minimum wage and for pension contributions, as well as a 25% leap in planning application fees over the past 2 years. Grocery retailers have encountered additional staff training costs to do with new alcohol and tobacco legislation.

We are however very much open to council tax being either replaced or reformed<sup>9</sup> with a new fit-for-purpose and durable regime, one that is able to withstand both good and bad economic times.

11. Any changes to or replacement of council tax should be underpinned by the need to support the economic recovery and consumer confidence. Whilst pay rises in the economy are forecast to continue to outstrip inflation, the fact is that shoppers remain cautious and retail sales remain lacklustre<sup>10</sup>. We would therefore caution against any replacement or reform of council tax which might cast a pall over what is likely to remain a tentative recovery in consumer confidence, for example if the aim is to achieve a substantial increase in the tax yield. This could ultimately affect devolved receipts from VAT, due to be assigned to the Scottish Government should the new Scotland Bill become law.
12. If the Commission were to suggest a broader range of taxation powers for local government, either as a replacement for council tax or in addition to it creating a basket of taxes or levies, we would at the very least expect to see a robust and convincing business case and cost benefit analysis. Within this we would also wish to know to what extent this might affect the predictability and certainty which is a feature of the current approach, and introduce a greater element of volatility of tax revenues.
13. Until now the onus for paying council tax has solely been the responsibility of individual households, understandably so because of the direct link between the individual householders and the services they receive. Some previously articulated alternatives to council tax, such as those related to incomes, could involve placing the administrative burden for collecting any replacement tax on employers. This would make Scotland a more expensive place to operate than elsewhere in the UK, and potentially affect investment plans. The retail industry is Scotland's largest private sector employer and it is highly unlikely we could support an additional administrative and cost burden of this nature and scale being placed on employers.
14. Given the importance of ensuring Scotland remains an attractive place to live and work, the Commission should be mindful of any potential impact that a new or replacement tax has on the ability of firms to retain or attract talent especially when compared to other parts of the UK<sup>11</sup>.
15. Given that domestic water and sewerage charges are billed and collected by local authorities together with council tax, we would be keen to understand how any alternative billing and collection arrangement may be undertaken and what if any implications that might mean for commercial water bills.
16. Finally, we would encourage the Commission to set out clear timelines for the practical implementation of each of its options, and suggest it recommends that the Scottish Fiscal Commission be given a formal role in forecasting tax revenues from the replacement or reformed council tax.

**Scottish Retail Consortium**  
**June 2015**

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<sup>9</sup> We note that other parts of the UK, let alone elsewhere in the world, use alternative domestic taxes

<sup>10</sup> SRC's Scottish Retail Sales Monitor, May 2015

<sup>11</sup> The cost of employing people has risen lately due to the introduction of pensions auto-enrolment and changes in the national minimum wage

