



USDAW BRIEFING - NON-DOMESTIC RATES BILL

Introduction

Usdaw, the Union of Shop, Distributive and Allied Workers, welcomes the review into Business Rates in Scotland and is supportive of a number of calls within the Non-Domestic Rates Bill. Usdaw is one of Scotland's biggest unions, with members mainly working in Retail. We also have significant membership within Road Transport, Distribution, Food Manufacturing and Call Centre operations.

Usdaw is the recognised voice of retail workers across the UK. We have significant membership in many big name retailers such as Tesco, Sainsbury's, Morrisons, Co-op, Poundland, Primark and Argos. Usdaw has detailed knowledge of the issues affecting the sector and in June 2019, we published our own industrial strategy for the Retail Sector (www.usdaw.org.uk/industrialstrategy).

We were pleased to see Jamie Hepburn, Minister for Business, confirm that the Scottish Government is committed to developing a retail strategy that addresses the challenges faced by the sector in Scotland. We look forward to working with the Government on this sector early in 2020.

Retail sector crisis

In recent years, an ongoing crisis has impacted the retail sector. Well-known brands such as BHS, Mothercare and Thomas Cook have disappeared from the High Street and many other chains such as Topshop, New Look and House of Fraser have all closed large numbers of stores.

In 2018, 74,000 jobs were lost across the sector with most recent figures suggesting that at least 85,000 retail jobs have been lost during 2019. The sector is being affected by a range of deep seated problems, issues which require comprehensive and ambitious solutions.

As outlined in Usdaw's industrial strategy for the sector, one of the key issues affecting the high streets is business rates. Across Scotland, retailers pay 22% of all business rates. As business rates are based on a property's 'rateable value' which is linked to rentable value, high street retailers paying significantly more than online competitors.

For example, Tesco paid business rates totalling almost £700 million in 2016-2017. In contrast, in written evidence to a parliamentary inquiry, Amazon said its UK sales amounted to £8.77bn and it paid business rates of only £63.4m, despite generating higher profits. This is a difference of over £600 million which provides Amazon with a huge financial and competitive advantage to other retailers within the sector.

This discrepancy is creating an unfair and artificial advantage for online only operators. As a result, we are seeing shops closing across the high street, causing a reduction in Government revenue through the business rates system. Usdaw believes that there is a clear necessity to reduce the business rate burden for high street retailers whilst at the same time removing the uneven playing field between traditional bricks and mortar retailers and online only operators.

Positive steps

Usdaw has been pleased to note that the Scottish Parliament has previously taken positive steps to tackle the issue of business rates, one of the most notable being that annual increases in the tax rate have now been limited to the CPI rate of inflation.

In efforts to further tackle the issue of business rates, Usdaw supports the measures in the Non-Domestic Rates Bill which would see revaluations of properties taking place every three years rather than every five and halving the period between valuations taking place and coming into effect. We believe that these changes will ensure that the rates system better reflects market/trading conditions and provide a more effective 'natural stabiliser' against cyclical economic effects as well as economic shocks.

Uniform Business Rates

Usdaw is opposed to moves which would further devolve control of the poundage rate to local councils. We believe that such devolution could have significant unintended consequences for retail and other sectors. Past experience from both Scotland and Northern Ireland has shown that devolution of business rates brings about upward pressure on poundage. Experience in Scotland shows that, under local poundage rates in 1990, Scottish rates were 57.3p compared to 34.8p in England. In Northern Ireland, where poundage rates are currently set by local authorities, rate bills are on average 19% higher than Scotland.

Usdaw fully believes that any short-term benefit gained through increasing poundage rates will exacerbate the retail crisis, forcing more shops to close and therefore leading to a reduction in total revenue raised through business rates. Additional shop closures will be caused not only as a result of the likely increase in poundage rate but also through widening the gap in the respective liabilities of high street and online only operators.

As we have seen throughout the retail crisis, shop closures not only negatively impact tax revenues but also bring about increased unemployment and negatively affect our communities.

Usdaw understands that local authorities feel under a duty to raise as much revenue as possible from business rates and, as shown historically in both Scotland and Northern Ireland, therefore increase the poundage rate. Such pressures will be difficult for local councillors to ignore as they seek ways of plugging funding gaps created elsewhere.

Usdaw supports a wholesale review of funding for local authorities to ensure they can continue to provide an effective range of services for the communities they represent. However, the current business rates system, which relies disproportionately on high street retailers, cannot meet the short-fall created by cuts elsewhere.

Our Industrial Strategy for the Retail Sector makes clear that the industry is undergoing profound change and that this change needs to be reflected within the tax system. At the moment, high street retailers are placed at a competitive disadvantage as a result of a business rates system which is based on an outdated view of 'rateable values'. In a modern world of online competition, the current business rates system does not reflect a company's ability to pay or the profit potential of a business's operation.

Usdaw is calling for a fundamental review of business rates which can eradicate the uneven playing field between online and high street retailers.

Summary

As noted above, the union is supportive of the measures already taken in Scotland, such as limiting increases in the tax rate to the CPI rate of inflation. Furthermore we believe there are many positive elements to the current Non-Domestic Rates Bill such as the three yearly re-valuations and halving the period between valuations and rates coming into effect.

Outside of these positive improvements, Usdaw fully supports the Scottish Parliament retaining control of the poundage rate for the entire nation.

Commenting on Usdaw's Scottish Divisional Officer, Stewart Forrest, said "It's high time that action was taken to address the very real needs of the retail sector. I urge MSPs to engage with the industry support calls for reforming business rates whilst retaining a uniform system across Scotland. I also very much hope that Holyrood will work with Usdaw's Save our Shops campaign, to work with us and with retailers towards developing a comprehensive Industrial Strategy for the sector."

General Secretary Paddy Lillis added, "The retail sector needs urgent action to protect these essential jobs which are a key part of our communities. Business rate reform is a central part of this, but a fundamental review of support for the sector is needed if we are to save our high streets from further decline.

"The Scottish Government has confirmed they will work in conjunction with stakeholders to develop an industrial strategy for the retail sector and we are looking forward to these discussions taking place."