MINISTER FOR UK NEGOTIATIONS ON SCOTLAND'S PLACE IN EUROPE
Briefing for Scottish Retail Consortium Board Meeting

What	*Scottish Retail Consortium Board Meeting* *Format - roundtable discussion*
Where	G&V Royal Mile Hotel, Tartan Room, 1 George IV Bridge, Edinburgh EH1 1AD
When	Time: 11:30-12:30 Date: 01 March 2017
Key Message(s)	• Scottish Government values its relationship with the retail sector. Recognise that Scotland's economy needs a vibrant and successful retail industry. • Continuous engagement with the Scottish Retail Consortium provides a way of discussing matters of mutual interest and to work collaboratively.
Who	*David Lonsdale, Director, SRC and board members – see Annex*
Why	Mr Russell was invited to attend the SRC Board meeting as guest speaker and to take part in a roundtable discussion on concerns raised by the SRC in their "Brexit: Which Way Out" Document October 2016. (MACCS case 2016/0040960 refers)
Supporting official	[redacted] **[3 lines redacted exempt.]**
Briefing contents	**Annex A:** Attendees/Key Biographies **Annex B:** Background/suggested discussion points **Annex C:** Retail Sector Background **Annex D:** EU Referendum Core Brief – relevant extracts **Annex E:** Business Rates Suggested opening remarks attached as separate annex
Media Handling	*None*
Social Media	*None*
Dress code	Business Attire
Greeting Party and specific meeting point on arrival (if event is at a non SE Building)	You will be met in the foyer of the hotel by David Lonsdale, Director, SRC **[2 lines redacted exempt.]**
Specific entrance for Ministerial car/parking arrangements	Main entrance

ANNEX A

ATTENDEES

Tony McElroy	Tesco and SRC Vice Chairman
David Lonsdale	SRC Director
Ewan MacDonald-Russell	SRC Head of Policy and External Affair
Jacqui Gale	Arran Aromatics
Alasdair Straker	BIRA
Mair Roberts	Kingfisher (Screwfix & B&Q)
Pete Cheema	Scottish Grocers Federation
Nial Connacher	McDonalds Restaurants
Jim Maitland	National Federation of Retail Newsagents Scotland
Andy Godfrey	Boots
Peter Betts	Debenhams
Tony Ginty	Marks and Spencer
John Brodie	Scotmid
Amanda Callaghan	British Retail Consortium

KEY BIOGRAPHIES

Tony McElroy, Vice-Chairman, Scottish Retail Consortium

Tony McElroy is the Head of Devolved Government Relations and Communications at Tesco PLC. He leads strategic engagement in Scotland, Northern Ireland and Wales and media activity across all channels. Most recently the future of Charity Fundraising Regulation in Scotland, reporting to Ministers in summer 2016. He is Vice-Chairman of SRC

David Lonsdale, Director, Scottish Retail Consortium

David's responsibilities involve representing and promoting the interests of the retail industry and member companies to government, policy makers and opinion formers on a wide range of public policy issues. He is deputy chairman of Workplace Chaplaincy Scotland, a board member of the Scottish Tourism Alliance, and a member of SCDI's National Policy Committee.

Ewan MacDonald-Russell, Head of Policy and External Affairs – SRC

Ewan leads on the development of SRC policy, collaborating with stakeholders, members and colleagues to develop the SRC's position on relevant Scottish issues. He leads on the development of the SRC's media activity. Ewan is also represented on the Regulatory Review Group (RRG).

ANNEX B

BACKGROUND

The Minister has accepted an invitation to attend the Scottish Retail Consortium's (SRC) quarterly board meeting to take part in a roundtable discussion following publication of their "Brexit: Which Way Out" Document in October 2016.

The SRC Brexit aims to ensure that the UK government strikes a fair deal for consumers in its exit negotiations with the European Union. The SRC defined three initial aims:

- Keep prices low for consumers
- A fair deal for EU colleagues
- Focus on Growth

SUGGESTED DISCUSSION POINTS:

The meeting will be chaired by Tony McElroy (SRC vice chairman) and we have been informed that the group would like to hear from the Minister on the following:

- Brexit key milestones and likely challenges over the coming months?
- To what extent are the needs of consumers understood in the Brexit context?
- Opportunities and/or priorities in terms of future trade deals including building on existing EU preferential trade arrangements
- The potential for further devolution arising from Brexit - what might this mean for Scottish retail and what approach towards policy in these areas might be taken
- Great Repeal Bill and implications for Scottish business

SCOTTISH RETAIL CONSORTIUM - BACKGROUND

The Scottish Retail Consortium (SRC) is the trade association for the Scottish retail sector and is the authoritative voice of the industry to policy makers and to the media. Its parent association is the British Retail Consortium (BRC) based in London and Brussels.

The SRC brings together the whole range of retailers across Scotland, from large multiples and department stores to independents, selling a wide selection of products through town centre, out-of-town, rural and online stores.

The SRC's central aim is to ensure that the Scottish Parliament and Scottish Government create the right trading environment to allow for continuing investment, job creation and innovation in product and service by retailers.

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RECENT SRC ENGAGEMENT

- Ministers have had substantial engagement with the retail sector recently. Mr Brown attended the Scottish Parliament's Cross Party Group on independent convenience stores in November 2016. Ewan MacDonald Russell of SRC was in attendance.
- Mr Mackay met with representatives from the SRC over dinner on 29 November 2016. The focus for that meeting was business rates.
- Mr Brown attended the SRC Board meeting on 30 November. The focus of that meeting was to hear the main challenges being faced by the retail sector which included Business Rates, UK Apprenticeship Levy.
- Mr Wheelhouse will meet with SRC representatives on 30 March 2017.
- Mr Brown has agreed to attend the SRC Annual Parliamentary Reception in June 2017

SENSITIVITIES

- **Business Rates**: SRC have consistently campaigned for a review and overhaul of the business rates system in Scotland claiming that the rates system is no longer fit for purpose. The Cabinet Secretary for Finance and the Constitution is aware of SRC concerns and has been happy to engage with the SRC in this area.

If Business Rates are raised officials have suggested that the Minister might advise SRC to direct any questions to Mr Mackay. Annex E includes background on Business Rates for information.

[8 lines redacted exempt.]

ANNEX C

RETAIL SECTOR - BACKGROUND

- The Scottish Government recognises the value of a successful and vibrant retail sector in Scotland and we continue to do whatever we can to support the sector. We appreciate that a close partnership between the sector, Government and its other agencies is key to delivering sustainable growth.

- We recognise that the retail sector in Scotland is transforming in response to, among other things, changes to shopping habits and through new technology. The proportion of retail businesses in the UK (with 10 or more employees) making e-commerce sales has increased from 25.8% in 2009 to 39.8% in 2015 and this this trend is likely to continue.

- Many in the industry are responding by refining their business models, investing in new technology and revamping their logistics capabilities.

- Ministers and officials regularly engage with the Scottish Retail Consortium and other key stakeholders in the retail sector to discuss policy priorities and to better understand the challenges and opportunities that transformational change in the sector will present. (Keith Brown attended the Scottish Retail Consortium Board meeting on 30 November 2016)

RETAIL RECENT TRENDS

Retail sales volumes in Scotland declined by 0.5 per cent in 2016 Q4 compared to the previous quarter (2016 Q3). On an annual basis (2016 Q4 on 2015 Q4), the retail sales volume grew by 3.1 per cent.
Employment in the sector was 244,400 in 2015, accounting for 9.6 per cent of total employment in Scotland.
The Scottish Chambers Business Survey for Q4 2016 reported that the Retail & Wholesale sector had a challenging fourth quarter, with over one third of respondents reporting a fall in profitability and marking the fifth consecutive quarter that the trend for profit was in negative territory.

Economic Growth (2016 Q4)

Comparing (2016 Q4) with the previous quarter (2016 Q3), retail sales decreased - in volume terms - by 0.5 per cent. On an annual basis, comparing 2016 Q4 with 2015 Q4, retail sales volume in Scotland grew by 3.1 per cent. In 2016 Q3, the Scottish economy grew by 0.2 per cent compared with the previous quarter (2016 Q2). On an annual basis, growth was 0.7 per cent.

Note: The index for the retail sector is from the Retail Sales Index which is published approximately 2 months earlier than the GDP index.

Employment (2015)

In 2015, total employment (employee jobs plus working proprietors) in the Scottish retail industry was 244,400, accounting for 9.6 per cent of all employment in Scotland. In Great Britain as a whole, retail accounted for a slightly higher proportion of total employment, at 9.9 per cent.

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Turnover and GVA (2014)
In 2014, the retail sector in Scotland had gross value added (GVA) of £6.9 billion and turnover of £26.9 billion. Scotland's retail sector accounted for 9.7 per cent of UK retail GVA and for 7.7 per cent of UK retail turnover.

Earnings (2016)
Median weekly pay – excluding overtime – for full-time employee jobs in the retail industry (SIC 2007 – division 47) in Scotland was £359 in April 2016. This is significantly lower than the equivalent median value across all industries and services in Scotland, which stood at £513.

Enterprises (2016)
In March 2016, 14,025 registered enterprises operated in the Scottish retail sector (SIC 47-*Retail trade and repairs*). Small enterprises (0-49 employees) accounted for 98 per cent of businesses in the sector, but only 24 per cent of employment and 18 per cent of turnover. Large enterprises (250+ employees), which comprised around 2 per cent of enterprises, accounted for 71 per cent of employment and 78 per cent of turnover.

Scottish Chambers Business Survey (2016 Q4)
The latest Scottish Chambers of Commerce Business Survey for Q4 2016 signaled steady performance in the quarter, with sales revenue and employment indicators positive across most sectors. Business optimism was mostly positive, but finely balanced across the board. In Retail & Wholesale, the survey responses signal that sales revenue was up over the quarter, with 44.4% of businesses experiencing an increase and giving a net % balance of +14. Despite this positive net balance recorded for sales revenue, more businesses reported a decrease in cash-flow than those reporting an increase, resulting in a net % balance of -6. This marks the fifth consecutive quarter that respondents in the sector reported a negative net balance. This decline in cash-flow levels over the quarter may explain why no respondents plan to decrease their price levels over the next three months, resulting in a net % balance of +56. Investment expenditure was negative during Q4 2016 for the second consecutive quarter with a net % balance of -2 reporting a decrease in total investment expenditure.

Scottish Retail Sales Monitor (January 2017)
This data is provided for awareness. Note that quality concerns exist, and that the SRC's definition of the retail sector differs from the definition used for the Scottish Retail Sales Index.

In January, Scottish sales declined by 3.2% on a like-for-like basis compared to January 2016, when they had decreased by 4.0%. In January, Total Scottish sales declined by 3.5% compared with January 2016, when they had declined by 3.8%. Adjusted for deflation measured at 1.7% by the BRC-Nielsen Shop Price Index (SPI), January sales declined by 1.8%. Total Food sales declined 2.6% on January 2016 while total Non-Food sales declined 4.3% compared to January 2016, when they had decreased by 2.1%. Adjusted for the estimated effect of online sales, total Non-Food sales decreased by 1.8% versus January 2016, when they had increased by 0.2%.

ANNEX D

[2 lines redacted exempt.]

THE EUROPEAN SINGLE MARKET

The EU single market is underpinned by the following four freedoms:

- **Goods** – free movement of goods with high safety standards and protection of the environment.
- **Services** – freedom to establish a company and/or provide or receive services in another EU country.
- **People** – enabling people to travel, live, work and study wherever they wish.
- **Capital** – unrestricted movement between Member States and third countries.

Benefits of the Single Market to Scotland

- The single market has removed barriers to trade and opened Scotland to a market of over 500 million people and 21 million small and medium-sized enterprises[1]. Businesses selling in the EU have unrestricted access to these consumers, helping them to stay competitive.
- As a result, Scotland's exports to the EU are now worth more than £11.6 billion a year, or 42% of the country's total international exports.
- Scotland is the most attractive region for Foreign Direct Investment (FDI) in the UK outside of London, according to Ernst & Young; 79% of investors into the UK cite access to the Single Market as important when deciding where to invest, as it allows EU and non-EU companies easy access to European markets.
- There are nearly 1,000 EU-owned companies in Scotland employing over 115,000 people and Scotland secured more FDI projects than any part of the UK outside of London in 2015.
- There are currently around 181,000 non-UK EU nationals living in Scotland, bringing new skills and expertise and in turn helping to underpin future productivity growth.
- The European Commission is currently working to remove barriers for companies looking to offer cross-border services and to make it easier for them to do business. Services are crucial to the Scottish economy and account for over 70% of our GDP.

Impact of Leaving the Single Market

- Leaving the single market could potentially increase the cost of exporting to EU markets (due to the introduction of tariffs, leaving the customs union and other non-tariff trade barriers), reduce the country's attractiveness to overseas investors and impose restrictions on labour thus increasing skills shortages and reducing productivity.
- Analysis published by the Scottish Government on 23 August 2016 suggests that by 2030, Scottish GDP is projected to be between £1.7 billion and £11.2 billion per year lower than it would have been if Brexit does not occur. Tax revenue is projected to be between £1.7 billion and £3.7 billion lower.

[1] European Commission

- Eight of Scotland's top 12 export destinations are within the European Union, and over 300,000 Scottish jobs were estimated to be associated with exports to the EU in 2011 by the *Centre for Economics and Business Research*.
- The Fraser of Allander Institute report on Long Term Economic Implications of Brexit, concluded that under a WTO scenario without access to the single market, around 10 years after Brexit Scottish GDP would be 5% (£8bn in 2015-16 terms) lower , exports 11% lower, real wages 7% lower (equivalent to a reduction of around £2,000 per year) and the number of people employed is 3% lower (around 80,000 jobs) than would otherwise be the case.

THE EUROPEAN ECONOMIC AREA (EEA) vs THE SINGLE MARKET

- The contracting parties to the Agreement on the European Economic Area (EEA) are the 28 EU member states and the three EFTA members: Norway, Iceland and Lichtenstein (sometimes referred to as the **EEA EFTA countries**) (NB Switzerland is a member of EFTA but is not a signatory of the EEA.)
- EEA EFTA countries must comply with all EU regulation concerning the production and marketing of goods and services, and are assumed to do so at the border.

Four Freedoms

At the core of the EEA Agreement is the requirement that the EEA EFTA countries adhere to the four freedoms of the EU single market and give effect in domestic law to all EU law obligations that impact on the rules of the EU single market.

EEA membership would require the UK to re-join EFTA then sign up to the EEA. All EU and EFTA members would have to agree.

Differences between the EEA and the Single Market

Although the EEA Agreement is a Free Trade Agreement (FTA) which provides access to the EU single market, the Agreement does not extend to the EU customs union, which is a component of the single market.

The EU Customs Union has abolished customs borders and procedures between EU member states, but these are still in place in trade between the EEA EFTA States and the EU, as well as in trade between the three EEA EFTA States. Furthermore, the common customs tariff on imports to the EU from third countries is not harmonised with the customs tariffs of the EEA EFTA States. This means that there is duty free trade in third country imports crossing EU internal borders but not for such goods crossing the EU/EEA border.

The EEA Agreement prohibits tariffs on trade between the Contracting Parties; all products, except certain fish and agricultural products, may be traded free of tariffs within the EEA providing they originated in the EEA.

Due to differences in agricultural and fisheries policies, the EEA EFTA States and the EU conduct their trade in basic agricultural and fisheries products through bilateral agreements.

The EEA agreement is limited compared to EU membership; in the period 2000–2013 only 9.05% of all EU legislation was incorporated into the EEA agreement (a total of 4,724 EU laws were incorporated into the EEA agreement whilst the EU adopted 52,183 pieces of legislation). However EEA EFTA countries have limited influence over the EU legislation that they do adopt.

Among other things, the EEA agreement does <u>not</u> include:

- the customs union;
- the common trade policy; in WTO negotiations, the European Commission represents all EU member states. Individual EEA members have their own voices.
- the common foreign and security policy;
- the common agricultural policy and the common fisheries policy (although the agreement contains provisions on trade in agricultural and fishery products);
- the field of justice and home affairs (although all the EFTA countries are part of the Schengen area); or
- the economic and monetary union (EMU).

THE CUSTOMS UNION

- Unlike in a Free Trade Area (FTA), members of a Customs Union impose a common external tariff on all goods entering the union, whilst eliminating tariffs and quotas on intra-area trade in goods. Thus, the EU Customs Union helps achieve free trade in goods between member states by removing trade barriers within the EU Customs Union, whilst and having a free trade area with a common external tariff.
- All products imported from outside the EU Customs Union (including from the EEA, which is not part of the EU Customs Union) are subject to '**Rules of Origin'** procedures. This requires companies to prove the origin of all the components in their products, so as to determine whether it can benefit from a tariff concession or preference. In practice, trade agreements between the EU and third countries, regional trade blocs and free trade areas determine the rate of duty and customs conditions, and some goods qualify for preferential rates i.e. lower or nil customs duty. The EU negotiates as a single entity in all international trade negotiations. To date the EU has 36 agreements covering 53 markets.
- The EU Customs Union is the biggest customs union in the world (based on the economic output of all its members), enabling more than €3 trillion worth of goods to flow in and out of the EU each year. It represents all EU member states, Monaco and some none-EU territories of the UK. The EU also has customs union agreements - which vary in scope, such as type of goods covered - with Turkey, Andorra and San Marino. The EU Customs Union does not include the EEA EFTA States (Iceland, Liechtenstein, and Norway) which have their own free trade agreements).
- As Customs Unions represent an exception to the most-favoured nation principle that governs international trade, they (as well as other Preferential Trade Agreements) must be agreed upon with the World Trade Organisation.

- Goods from outwith the EU Customs Union, once cleared by customs in one member state, can move freely within the EU on the basis that all Member States apply the same rules at external borders (tariffs, quotas and product regulations and standards). As a result, intra-area administrative and fiscal trade barriers such the time and charges for customs checks are largely absent and goods only undergo a single customs inspection - there are no customs duties levied on goods travelling within the EU Customs Union.
- The effect of leaving the customs union will depend on any agreement reached. If the UK agrees a free trade deal, business will incur costs (administration and customs charges) to meet the rules of origin and prove that the goods and products are from the UK. At the same time, leaving the EU Customs Union will allow the UK to negotiate its own trading arrangements with third countries. If no trade agreement is reached, under the WTO, goods would face the EU's full common external tariffs[2] as well as customs checks and other non-tariff/regulatory barriers.
- The extent to which tariff barriers and non-tariff/regulatory burdens affect trade differs across sectors and markets. For example, food and beverages may be particularly affected by tariff barriers and certain regulatory requirements; and custom costs and adhering to common standards may impose cost on sectors such as chemicals and advance manufacturing.

The Great Repeal Bill

- The UK Government intends that the Great Repeal Bill will deal with the legal and policy consequences of leaving the EU, at least initially. The Scottish Government is already considering the options for devolved areas and, as part of these considerations, will discuss plans for the Great Repeal Bill with the UK Government as they develop, in line with well-established practice for Westminster legislation.
- If, in light of those discussions and the discussions on the proposals included in *Scotland's Place in Europe*, the Scottish Government agrees that the Great Repeal Bill should include areas within devolved competence or changes to the powers of the Scottish Parliament or Scottish Minsters, the legislative consent of the Parliament will need to be sought in the normal way.

Impact on Business and Economy

- The EU referendum outcome has generated volatility in financial markets and heightened economic uncertainty across the UK - raising fears of lower economic growth. At this point the impact is uncertain but it is clear that the decision to leave the European Union will be followed by a period of uncertainty with the potential to create a significant economic shock. Since the vote, Ministers and officials have had extensive engagement with business. Companies have welcomed the leadership shown by the First Minister and the stability offered by the Scottish Government, but there is concern for the future outlook.

[2] World Tariff Profiles

- The Scottish Government must not lose sight of the trade, investment and other opportunities that are presented by the gap in both the referendum outcome and response between Scotland and the rest of the UK. Our determination to ensure that Scotland's place in the single market is safeguarded provides an excellent opportunity to put forward a positive case for building our export base, investment in Scotland and attracting skills and talent, and to highlight the difference in our approach compared to rUK.
- Secondly, working closely with the enterprise agencies and local authorities to ensure a coordinated response by the Scottish public sector, drawing on external expertise from the private sector, business organisations, trade unions and other key stakeholders. The aims of that engagement are to:

  - Broadcast and reinforce Scottish Government messages and priorities, raising awareness and understanding;
  - Listen to individual businesses and raising our collective awareness and understanding of what we might do (differently) to better support growth; and
  - Foster related policy and operational capacity/actions with greater impact, including and through partnership working.

Lines to take

- Leaving the EU is likely to weaken the economy; according to the UK Government's own analysis leaving the single market could lower Scotland's GDP by more than £10 billion, and the National Institute of Economic and Social Research suggests Scotland's exports could be cut by more than £5 billion if we fail to retain access to the single market.
- We are acting decisively to help counter economic uncertainty. As part of the Programme for Government FM announced a £500 million Scottish Growth Scheme, and on 10 August, FM announced a £100 million Capital Acceleration Programme to stimulate the economy.
- We have also set up a dedicated Post-Referendum Business Network service to provide information and support to businesses affected by referendum result.
- We will implement a four-point plan to boost trade and exports, ensuring that our European friends know that Scotland is open for business.
- The Scottish Government has guaranteed to finance all EU funded projects agreed prior to Brexit. This includes funding for the Scottish Rural Development Programme, EU Structural Funds, projects under the European Maritime Fisheries fund, Horizon 2020 and European Territorial Co-operation programmes. In addition to this the Treasury has stated they will underwrite the payment of such awards, even when specific projects continue beyond the UK's departure from the EU.
- We welcome the statement issued jointly by Scotland's main business organisations on 8 July, which confirmed that:

  - Scotland's businesses need continued access to the single market and free movement of labour;
  - Scotland's businesses need information and support which is clear, relevant and up to date;

- Scotland remains part of the EU and an attractive and stable place to do business, with a fundamentally strong economy.

- We established a dedicated Information Service to answer companies' questions about the Business implications of the Referendum result (launched on 22 August).
- On 10 August, FM announced a new Capital Acceleration Programme with measures to support and stimulate the economy in the wake of the EU referendum. An additional £100 million of Capital funding will be made for projects that support and create employment and speed up delivery of health and infrastructure projects.
- FM has called upon UK Government for urgent action and a UK wide stimulus package to enable the SG to do more to accelerate capital spending.
- Analysis published by the Scottish Government on 23 August 2016 suggests that by 2030, Scottish GDP is projected to be between £1.7 billion and £11.2 billion per year lower than it would have been if Brexit does not occur. Tax revenue is projected to be between £1.7 billion and £3.7 billion lower.

Contacts:

[redacted exempt.]

ANNEX E

BUSINESS RATES

ISSUE: MINISTERIAL STATEMENT, 21 FEB

- 12.5% real-terms cap on bill increase for:
  - hotels & pubs; restaurants & cafes (benefits 8,500 properties);
  - offices in Aberdeen and Aberdeenshire (benefits 1,000 properties)
  - small-scale hydro (up to 1 MW) (benefits 100 properties)
- Expanding current relief up to 100% for qualifying community renewables projects, by lowering the eligibility threshold related to community profit-share from 1 MW to 0.5 MW
- New 50% relief for district heating schemes.
- Total cost £44.6m, funded by revised approach to addressing the NDR pool deficit.

DRAFT BUDGET 2017-18 proposals

	Scotland		**England**	
	2016-17	**2017-18**	**2016-17**	**2017-18**
poundage (pence)	48.4	46.6	48.4	46.6
large business supplement (pence)	2.6	2.6	1.3	1.3
LBS threshold (rateable value)	£35k	£51k	£18k / £25.5k London	£51k
small business 100% relief – upper threshold (rateable value)	£10k	£15k	£6k	£12k
small business <100% relief (rateable value)	50% to £12k 25% to £18k	25% up to £18k	tapers to 0% at £12k	…0% at £15k

THE REVALUATION

- All commercial premises have their property value reassessed by the independent Assessors. The SG has no locus to intervene. SG does have control over the tax rate (poundage) and reliefs.
- Assessors published draft revaluations online, subject to change in March. **All ratepayers have until 30 September to appeal their revaluation.**
- SG will publish an analytical report on the impact of revaluation in due course.

TRANSITIONAL RELIEF (TR)

- Revenue-neutral premise: largest bill increases and decreases phased in after revaluation so acts as a cross business subsidy, although past schemes have always required Gov subsidy to balance.

- SG consulted in 2016: published analysis showed 32 of 52 respondents supported TR.

- English legislation requires TR for every revaluation. Scotland last applied it for 2005 revaluation.

Empty property relief unchanged

	Empty non-industrial property	Empty industrial property
Scotland from 2013-14	100% for 3 months, then 10%	100% indefinitely
Scotland from 2016-17	50% for 3 months, then 10%	100% for 6 months, then 10%
England	100% for 3 months, then 0%	100% for 6 months, then 0%

<u>Top lines</u>

- No restaurant, pub, hotel or café will see their bills increase by more than 12.5%;
- Additional support for the North East economy in light of the Oil and Gas downturn, capping bill increases at 12.5% for offices in Aberdeen and Aberdeenshire
- Expanded renewables relief as committed to in the Draft Budget
- As Mr Mackay set out on 21 Feb, updating the profiles of the Scottish Government's contribution required to bring the NDR pool into balance has provided the flexibility to meet the additional cost of these measures.
- The measures for hotels/pubs and offices will apply for 2017-18 and we will consider what further future support is required in light of the Barclay review when it reports this summer.
- We have freed councils to use their powers to introduce local rates relief schemes to ensure that we cover other sectors, individual areas or individuals where that might be appropriate.

<u>The Draft Budget sets out a highly competitive business rates regime.</u>

- **Over 70% of Scottish properties will pay the same or less in 2017-18 than they do currently.**
- We are cutting the poundage, extending the Small Business Bonus Scheme, and focusing the Large Business Supplement only on the very biggest businesses.
- More than half of rateable properties will pay nothing for 2017-18 [due to the Small Business Bonus and other reliefs].
- An external review (led by Ken Barclay) is exploring how business rates can better reflect economic conditions and support growth. We will respond quickly when it concludes in the summer.
- In 2017 all commercial premises will have their property value reassessed by the independent Assessor. The Scottish Government has no locus to intervene in this process.
- The Scottish Government will publish an analytical report on the impact of revaluation in due course.
- All ratepayers have a right of appeal against the independent Assessors determination of rateable value. This is free to do in Scotland, unlike in England where charges are proposed from 2017-18.

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<u>Our Draft Budget demonstrates our commitment to competitive business rates</u>

- The rates poundage will drop 3.7% from 48.4p for 2016-17 to 46.6p for 2017-18.
- We are maintaining the best support for small ratepayers in the UK.
- The Small Business Bonus has saved business over £1.2 billion cumulatively since 2008.
- The Small Business Bonus eligibility threshold for 100% rates relief will increase to a rateable value of £15,000, lifting 100,000 properties out of rates altogether.
- The Small Business Bonus will provide maximum support of £6,990 per business [100% relief for £15k rateable value at 46.6p poundage].
- Properties with rateable value up to £18,000 can still get 25% relief, as is the case currently [so long as ratepayer's cumulative rateable value is no more than £35k].
- **We are excluding 8,000 businesses from the large business supplement**, and limiting it to fewer than 10% of properties [around 20,000].
- **We are raising the threshold for the large business supplement from a rateable value of £35,000 to £51,000** [matching England].

NDR INCOME / POOL

07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17
1,928	1,924	2,010	2,138	2,251	2,347	2,367	2,511	tbc	tbc
	-0.2%	*4.3%*	*10.9%*	*16.8%*	*21.7%*	*22.8%*	*30.2%*	tbc	tbc

NB. 2015-16 data will publish Feb 2017

- Conservatives cite SPICe 42% rise in collected NDR from 2007-08 to 2014-15. However, SG published collected NDR (table above): up 30% from 2007-08 to 2014-15; in line with England.
- Draft Budget shows (distributable) NDR dropping from £2,768.5m for 2016-17 to £2,605.8m for 2017-18. [redacted]

<u>SG Non-Domestic Rating Account ("The NDR Pool")</u> *[data to 2015-16 published;*
[1 line redacted exempt.]

(£m)	2013-14	2014-15	2015-16	[redacted]	[redacted]	
Contributions	2,500.9	2,554.0	2,573.8	[redacted]	[redacted]	*NB. figures differ from above stats due to prior-year adjustments etc*
Distributable Amount	2,513.0	2,780.6	2,788.5	[redacted]	[redacted]	
Yearly Balance	-12.1	-226.6	-214.7	[redacted]	[redacted]	
Cumulative Balance	152.7	-73.9	-288.6	[redacted]	[redacted]	

<u>We will continue to fund a package of rates relief worth over £600 million</u>

- We are not proposing transitional relief, as it would burden many smaller ratepayers (and benefit a few large utility companies).

[3 lines redacted exempt.]

- **Empty property relief will continue unchanged for 2017**
- Empty relief balances the incentive for landlords to occupy property, with a reasonable period of time to help manage vacancies.
- 'New Start' relief supports new-build development; and 'Fresh Start' relief supports re-use of certain long-term empty property.
- **Councils can also now apply further rates reductions** under the Community Empowerment Act. [Perth & Kinross is using the power to support town centres]

<u>We continue to discuss Draft Budget proposals with stakeholders ahead of final decisions</u>

- Ministers continue to engage a range of stakeholders including Aberdeen & Grampian Chambers of Commerce, Aberdeen City Council and Aberdeenshire Council.
- Rating valuation is undertaken by independent Assessors, funded by local councils, not the Scottish Government.
- Individual business rate payers can, of course, appeal their valuation if they feel it is incorrect.
- Each council retains all the business rates revenue it collects, and it is for councils to apply rates reductions, on top of existing statutory reliefs, as they see fit.
- Taking next year's local government finance settlement plus the other sources of income available to councils through reforms to council tax and funding for Social Care, the overall increase in spending power to support local authority services amounts to £241 million or 2.3 per cent.
- Aberdeen Council's share will see increased spending power of £7m in 2017-18, not a decrease.
- The Scottish Government is delivering a huge amount for Aberdeen and the North-east. We are delivering our share of the Aberdeen City Deal plus an additional £254 million investment announced alongside it. We are also investing £745 million in the Aberdeen Western Peripheral Route.

[4 lines redacted exempt.]