LOCAL GOVERNMENT AND REGENERATION COMMITTEE

LOCAL GOVERNMENT FINANCE (UNOCCUPIED PROPERTIES ETC.) (SCOTLAND) BILL

SUBMISSION FROM SCOTTISH CHAMBERS OF COMMERCE

1. Scottish Chambers of Commerce (SCC) is Scotland's largest business representative organisation, representing over 10,000 businesses employing over half of the private sector workforce, with one hundred and seventy staff in the offices of its twenty two constituent member Chambers.

2. Scottish Chambers of Commerce welcomes the opportunity to input into the Local Government and Regeneration Committee's Stage 1 consideration of the Local Government Finance (Unoccupied Properties Etc.)(Scotland) Bill. In this response, our focus is on the provisions contained in Clause 1 of the Bill relating to the rating of unoccupied lands and heritages.

3. Whilst the Bill is clearly an enabling piece of legislation and therefore does not of itself alter the burden of non-domestic rates on businesses, it has been introduced to the Scottish Parliament following the publication of the Scottish Government's *Scottish Spending Review 2011 and Draft Budget 2012-13*, in which the Government set out its clear intention to increase the burden of non-domestic rates on the owners of unoccupied properties in the years 2013-14 and 2014-15 through the review of Empty Property Relief[1]. Shortly afterwards the Scottish Government confirmed its intentions to reduce Empty Property Relief from 2013-14 in its publication *A Scottish Budget for Growth*[2]. The intention of the Scottish Government to increase the non-domestic rates burden on businesses through the devaluation of this relief is again restated in the policy memorandum to this Bill[3]. It is against this background that we must consider this legislation.

4. The Scottish Government has two stated objectives in bringing forward this Bill and utilising the powers it would provide, namely to "provide incentives to bring vacant commercial premises back into use and raise additional revenue for the Scottish Government"[4]. We do not believe that the policy of reducing the value of Empty Property Relief to business would be effective in achieving either.

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[1] Scottish Spending Review and Draft Budget 2012-13, Scottish Government, September 2011
[2] A Scottish Budget for Growth, Scottish Government, September 2011
[3] Local Government Finance (Unoccupied Premises)(Scotland) Bill Policy Memorandum, March 2012
[4] Local Government Finance (Unoccupied Premises)(Scotland) Bill Policy Memorandum, March 2012 at Paragraph 4.

5. Scottish Chambers of Commerce shares the Scottish Government's goal of reinvigorating our town centres and our own Town Centres Group is currently working alongside the Scottish Government to support and deliver lasting change and the creation of new opportunities to ensure their success. However our members are deeply concerned that moves to tax property owners in Scotland by an additional estimated £18 million per year are misguided and counterproductive.

6. Scottish businesses are currently struggling to return to a path of growth following the deep recession of 2008-09. The scale and impact of that recession should not be underestimated. The Scottish economy suffered five consecutive quarters of contraction and has had two subsequent quarters of contraction since. Our economy shrunk by 4.8% in 2009, whilst overall growth for 2010 and 2011 was only 0.8% and 0.5% respectively. The UK economy as a whole has fallen back into recession over Q4 2011 and Q1 2012, and the pressures facing our retail sector are particularly acute.

7. Scotland's town centres are facing challenges from many different sources such as out of town competition, online retailing, falling consumer demand, high parking charges, access issues and the lack of a co-ordinated offering. At the moment, there are significant numbers of vacant properties in Scotland's town centres – with around 14% of retail units lying vacant. This number is likely to grow further over the next two years as a host of leases come up for renewal. With major High Street stalwarts such at the Arcadia Group hinting at downscaling their operations, estimates have suggested that vacancy rates could rise to as high as 40% in Scotland.

8. The principal reason why more and more properties have become vacant is not the cost of rents, it is lack of demand. Therefore if the Scottish Government is serious about tackling the problem of vacancy, it must look towards stimulating demand or influencing supply. To improve town centres, investment from landlords is crucial. However, the main effects of adding costs to property owners will be to restrict their ability to invest in upgrading their portfolio and it may even encourage owners to seek demolition of a property, where that is an option. Imposing further costs on property owners in the absence of a rental stream does not make economic sense. Rents in Scotland are already falling in non-city centre locations throughout the country. In addition to town centres, the reduction of Empty Property Relief could also hit second and third tier retail centres. Any move to increase the costs of property owners could also have the opposite effect to that intended; that is, it may place upward pressure on rents as landlords look to tackle costs.

9. This is not a policy that is new to the United Kingdom. In 2008, the UK Government reduced the value of Empty Property Relief in England with similar intentions. The result has been an increase in rates revenues that has been far less than anticipated, the emergence of numerous deals with charities to populate vacant stores, demolition of premises and an estimated increase in the rates bills of public sector landowners by over £70m in 2012-13.

10. In the absence of safeguards, the reduction of Empty Property Relief could also stifle speculative development, where owners are unwilling to take the risk of being left with untenanted property and a sizeable rates bill. This could adversely affect the available supply of quality and suitable business premises in Scotland.

11. There is also the issue of bank finance to consider. The burdening of property owners with additional non-domestic rates liability in the absence of new rental income could affect the viability of existing finance agreements and even result in foreclosure in some cases. On the other side of the coin, if the banks are not making finance available to prospective new retailers, then there will be few new tenants to move into vacant premises.

12. If the Scottish Government intends to go through with this policy then it must produce evidence to demonstrate how its plan will work and what effect it will have. So far such evidence has not been forthcoming.

13. The Explanatory Notes to the Bill make it clear that that regulations introduced by the Scottish Government to vary Empty Property Relief will be subject to negative procedure[5]. This means that changes to the rate of relief could be implemented without a vote being held. We would argue that any move to increase the tax burden on Scottish businesses should be subject to affirmative procedure and Parliament should have to expressly approve them.

14. Scottish Chambers of Commerce will be happy to expand on this evidence during oral evidence to the committee.

Scottish Chambers of Commerce
May 2012

[5] Local Government Finance (Unoccupied Premises)(Scotland) Bill Explanatory Notes, March 2012 at Paragraph 5.