

LOCAL GOVERNMENT AND REGENERATION COMMITTEE

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

SUBMISSION FROM SCOTTISH COUNCIL FOR DEVELOPMENT AND INDUSTRY

1. SCDI is an independent membership network that strengthens Scotland's competitiveness by influencing Government policies to encourage sustainable economic prosperity. SCDI's membership includes businesses, trades unions, local authorities, educational institutions, the voluntary sector and faith groups.
2. Following the publication of the Scottish Government's proposal to reform empty property relief for non-domestic rates in the *Scottish Spending Review 2011*, SCDI has discussed the concerns of a range of our members with the Cabinet Secretary for Finance, Employment and Sustainable Growth John Swinney MSP.

Incentives to Bring Vacant Commercial Premises Back into Use?

3. The Scottish Government's economic case is based on the incentives it states that reducing empty property relief will provide to bring vacant commercial premises back into use. It believes that town centres will particularly benefit.
4. SCDI strongly supports a strategy to regenerate and revitalise town centres. This should be evidence-based in data, modelling and comparators, and joined-up. There is a lack of information from the Scottish Government about the profile of and trends in vacant properties with which to judge the impact of this reform.
5. Owners of vacant properties do not, generally, keep property intentionally vacant. The fundamental problem is usually a lack of demand from tenants. Large incentives are on offer to potential tenants for many premises around Scotland. The reduction in empty property relief can do very little to influence their re-use.
6. Evidence from England since 2008 does not suggest that the abolition of long-term empty property relief has increased occupancy rates. As a result of the economic downturn, retail vacancies in England have, in fact, increased sharply.
7. As the economy emerges from recession and businesses expand once again, there will be a need for a range of property. Speculative property development is highly unlikely to rebound to what is generally agreed to be the unsustainable pre-credit crunch level due a fundamental reappraisal of 'value'. However, it will continue to have a role in ensuring that there is sufficient available provision. However, the reform to empty property relief is likely to reduce or undermine the viability of developments in the appraisals of investors, which would delay and constrain growth in the broader business base. Reduced development would reduce work and employment in the already hard-pressed construction sector.

8. As projects in regeneration areas are already more marginal than prime locations, there is likely to be an even greater disincentive to private sector development. This would increase the need for public sector investment in these areas if regeneration strategies are to progress. The reform must also be joined-up with UK tax allowances to encourage bringing vacant property back into use.
9. The Committee should examine all the potential effects of this reform - intended or unintended - how they might interplay and the overall economic impact. SCDI would suggest that it considers, for example, the following potential effects:
 - Increasing non-domestic rates liabilities may lead lenders to place businesses in administration, increasing unemployment and reducing economic demand
 - Some landlords may not be able to reduce rents without breaching loan-to-value
 - Some landlords holding leases may be legally bound by rental commitments
 - As a result of pressures from lenders and to reduce their increased costs, some property owners may *raise* rents on their business tenants in some premises
 - Reduction in the ability of property owners to maintain or upgrade premises
 - Increasing demolitions, harming regeneration and the availability of properties

Raising Additional Revenue for the Scottish Government?

10. In view of the absence of modelling on the effectiveness of this proposal as an incentive and of the introduction of this reform in advance of and separate to the planned national review of Scotland's town centres, it must be concluded that the primary policy objective is to raise additional revenue for the Scottish Government. It states that "maintaining the status quo for empty property relief was unaffordable within budget constraints" and that the proposed reform will reduce the cost to the Scottish Budget by an estimated £18 million per annum.
11. However, these estimates must be treated with caution. The substantial revenue savings which had been expected in England have not, in fact, been realised.
12. SCDI would suggest that the Committee considers the following factors:
 - Surveys by the property sector suggest that the Scottish Government has significantly underestimated the likely costs to ratepayers of this reform
 - Lenders may place businesses with empty premises which face significantly increased rates into administration. This would, as a result, *reduce* revenues to the Scottish Government from businesses currently paying 50% of rates. In its flat projection of savings in 2013-14 and 2014-15, the Scottish Government does not appear to recognise that its reform will influence lender and owner behaviour
 - Scotland's public sector is a significant property owner and there are often reasons why its properties are empty. Public bodies have announced floorspace reduction targets in their Asset Management Plans. If they cannot sell or lease these properties, public bodies may bear a substantial proportion of the costs

- Local authorities also suggest that the administration costs may be higher
- To ensure no impact on services may require spending *from* the Scottish Budget

Conclusion

13. SCDI recommends that further, detailed analysis of this proposal should be undertaken before the Bill is passed and, certainly, before it is implemented.
14. SCDI looks forward to the Scottish Government's forthcoming review of the rates system. This will be an opportunity for a fundamental consideration of the role of system in sustainable economic growth, and potential changes and alternatives.

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