Local Government and Communities Committee

Note of meeting with Celebrate Kilmarnock, 24 June 2019 to discuss Non-Domestic Rates (Scotland) Bill

MSPs present: James Dornan (Convener), Kenneth Gibson, Graham Simpson, Alexander Stewart, Andy Wightman

1. The visit was held at Celebrate Kilmarnock's office, King Street Kilmarnock. Attendees included representatives of the local business community (retail and commercial property), community workers and trustees in local charities, and regeneration officers from East Ayrshire Council.

   Kilmarnock town centre

2. On their way to the meeting, MSPs had noted the state of the town centre, with a number of empty commercial properties alongside shops of low amenity value (eg chain betting shops and charity shops) and asked participants to explain local sentiment about the town centre. One reply was that people felt there was nothing much to bring them into Kilmarnock town centre. They shop elsewhere, in Glasgow or out of town malls. It is not that there is no money in Kilmarnock, but money does not recirculate within the community as it should. The state of the town centre has become a "morale issue": it lowers community pride.

3. A revolution in shopping habits is a partial cause of the town centre's decline. Participants said that the "Amazon effect" on the retail sector is no longer new, but the impression is that officialdom has not caught up and revised its thinking: on business rates and in other areas. Participants acknowledged that the "traditional"

retail sector itself also had to learn lessons to learn about how to compete in this changed environment. The Committee heard that the Council was engaged in "rethinking" the town centre, in recognition that the old ways of doing things are unlikely to come back. The Council still wanted retail to have a strong presence but was looking to encourage more diverse uses.

General views on business rates: what needs to change?

4. The Committee was told that in any conversation with the local business sector, business rates will inevitably crop up as a topic. They are an everyday concern. No one present had any principled problem with businesses helping pay for local services. The concern was that rates are set at levels not reflecting current realities.

5. Participants said the current revaluation cycle is too long. Five-year revaluations leave properties saddled with rates bills that do not reflect current market conditions. A recent example given was of a property with rates of £80,000 per annum. The proprietor did a "midnight flit" leaving the owner with a shop that no one wanted to lease. Overall, there was a view that the ratings system needed to be more responsive to local market conditions. Provisions in the Bill to speed the cycle to 3 years were therefore welcomed.

6. Participants said increasing the frequency of revaluations was necessary but not sufficient for a fair ratings system. The system had to function well administratively and appeals had to be handled more timeously. Some participants expressed more fundamental concerns about the valuations system. They queried whether the system was somehow inflating market value, leading to rates that were not commercially viable. They said leaseholders were voting with their feet – many wanted out as soon as possible. The Committee heard an argument that

systematically overvaluing commercial property suited many of the sector's big players, who are likely to be borrowing against their property portfolio. The argument was that they would prefer their properties to be over-valued, since letting some properties lie empty (because no one could afford to run a business from them) would be a lesser financial risk than having their over-leveraged position exposed.

Interventions to help struggling town centres

7. Participants were asked what councils could do to help the high street. Councils have powers to waive rates in particular areas. Use of the power was described as a "leap of faith", and councils tend to be risk averse. East Ayrshire Council has to find £50 m in savings over the next 3 years. There were questions as to whether current arrangements incentivised councils. Do councils actually benefit from growing their business base? Would it not lead to equalisation payments from the Scottish Government being reduced? Participants agreed that the benefits brought by Enterprise Zones and Business Improvement Districts; other initiatives to help boost commercial areas, had not always been clear.

Impact on expanding businesses

8. The Committee heard views that there needs to be more tiering of business rates. The small business bonus scheme is welcome in principle but in practise creates a "cliff edge" for small businesses looking to expand and employ more people that is a practical brake on business growth. The view was that there was scope to rebalance the system; to make the business sector share the rates burden more equitably. A participant referred to the "moral dilemma" of having to choose whether (a) not to expand their business, in order to avoid the cliff edge, or (b) to expand but to move the business out of Kilmarnock town centre to keep the rates bill manageable. They said they strongly wanted to remain a local business and that the system should not force such choices on people. Participants suggested that either the system should be more tapered (ie with more banding) or that relief for expanding businesses should be more generous to reduce the size of the cliff edge.

Relief for charity shops

9. There were mixed views about charities benefiting from charitable relief on rates. Charities provide a social benefit, and no one wants to see another empty shop. On the other hand, it does not always seem fair to provide relief where the charity concerned is a large one with well-paid senior managers. Some types of charity shop (eg bookshops) are to some extent in competition with the retail sector.