

Autumn Statement – BCSC Submission

BCSC

BCSC is proud to represent 2,600 property professionals drawn from over 500 organisations. Our membership is a broad church, representing investors, developers, owners, managers, retailers and public sector employees. Our membership roster includes industry leaders such as Westfield, Hammerson, Land Securities, British Land, Next, Marks and Spencer, and John Lewis Partnership.

BCSC works to maintain a positive open dialogue with decision makers in Whitehall, Westminster and at the heart of local communities to ensure that together we are able to realise positive outcomes for our sector and, more crucially, for the communities in which we operate.

Ahead of the Autumn Statement on 29th November, we are pleased to present our recommended proposals for the Chancellor's consideration.

For further information on BCSC and our activities, please contact edward.cooke@bcsc.org.uk

Key Recommendations for Autumn Statement

- Introduce a private sector-led Tax Increment Financing (TIF) option **(p.2)**
- Use Government's power to set the Uniform Business Rate (UBR) multiplier for 2012/2013 at a lower rate than the Retail Price Index (RPI) rate of inflation **(p.3)**
- Re-introduce empty property rate relief **(p.3)**
- Introduce business rates exemption zones in town and city centres where property owners and developers are committed to regeneration schemes or significant redevelopment **(p.3)**
- Consider the introduction of fiscal incentives to encourage refurbishment of commercial property **(p.5)**

Introduce a private sector-led Tax Increment Financing (TIF) option

We firmly believe that a specific TIF variant – known as Local Tax Re-investment Programme (LTRIP) - should be introduced urgently. Unlike the public sector led tax increment proposals the introduction of LTRIP transfers risk to the private sector for upfront infrastructure investment without relying on public sector money. Instead, the expenditure can be financed by the developer's own resources, and the developer is then repaid out of a tax increment, from increased business rates, as and when it arises. Thus the local authority can entirely transfer to the developer the construction risk and the risk that the tax increment will fall short of expectations.

We know that the LTRIP model is attractive to private sector funders given the parallels with traditional development finance, which relies on payback from a developer from future rental flows whereas LTRIP would require payback from future tax receipts. Given future tax flows are safer than future rental flows (the latter being subject to letting void periods) we believe the private sector will more readily support LTRIP than traditional development finance tools. This support for a developer led TIF was clearly expressed in a letter to the Deputy Prime Minister in September this year, signed by seven of the UK's largest developers¹.

We are aware that the Government's current interpretation of public accounting rules means that even for developer-led TIF schemes the infrastructure investment must be classified as Government borrowing. However, we believe that as LTRIP transfers the control, value and cost risks entirely to the developer and therefore if the additional business rate income is not realised or the costs of construction overrun, the developer is entirely responsible, then there is no reason for any debt to appear on the public balance sheet.

We have long been of the view that TIF of any form, including LTRIP, should not require primary legislation given, as you will be aware, that the Local Government Act 2003 s70(4a) gave powers to Ministers to allow additional business rates, over and above those assumed in annual financial settlements and which would normally be retained by Government, to be returned to local government and allocated to principal authorities. We therefore support calls for TIF, public and private sector led, to be introduced as soon as possible, rather than waiting for the process of enacting Government's intentions to allow councils to retain the business rate through the Local Government Finance Bill next year. Bringing TIF/LTRIP proposals forward immediately would show a real commitment to sustainable development and an immediate and necessary response to the UK's obvious infrastructure requirements.

Our recommendation:

- Work with the retail property sector to address the issue of classification and introduce LTRIP urgently. We believe that this could be implemented with Ministerial approval, and without the need to primary legislation, under the terms of the 2003 Local Government Act

¹ [BCSC letter to Rt Hon Nick Clegg MP 8 September 2011](#)

Business rates

Retailers are intensive users of property, accounting for roughly 25% of all business rates paid to Government – a contribution of around £6 billion per annum – and in comparison to other countries such as the US, Australia, Germany and France business rates in the UK already account for a far greater proportion of the retailers' occupancy costs.

As you are aware next year's UBR is set taking into account the RPI inflation rate at September 2011. September's RPI of 5.6% was once again far in excess of Government's target inflation rate of 2% and as such the burden on the retail sector next year will be significant, coming at a time when retailers are feeling the combined pressure of the January 2011 VAT increase, falling consumer disposable income, low levels of bank lending and weak consumer confidence. We urge you to use Government's power, as set out in the Local Government Act 1988, to set the Uniform Business Rate (UBR) multiplier for 2012/2013 at a lower rate than the Retail Price Index (RPI) rate of inflation.

Empty property rate relief

As part of the Local Government Resource Review we recommended that Government commit to assessing the impact of its policy on taxing empty property as we are of the strong view that the relief should be introduced. The key effect of empty property rates is that they provide a barrier to investment as developers and investors must take into account the costly risk of the property being empty and the subsequent reduction in income and increase in expenditure for the owner.

We understand the financial constraints the UK is under, however not only is the Government retaining a tax that is ineffective in achieving its stated objectives of increasing demand for retail space through lower rents, but it has now extended the tax to almost all empty premises in what is an extremely challenging economic climate for the retail and development sectors. In our view this is a retrograde step, and perverse and inconsistent given the Government's position to this policy in opposition.

In addition it should be noted that the combination of reduced income from rent and additional taxation increases the likelihood that landlords will default on their loan agreements. Banks, including those where the Government has a significant interest, have been forced to take ownership of these assets, many of which have had equity wiped out, further increasing their exposure to toxic debt.

Business Rate Exemption Zones

In our response to the Local Government Resource Review (LGRR) we also presented an argument for business rate exemption zones in town and city centres where property owners and developers are committed to regeneration schemes or significant redevelopment. Our rationale is that property owners and developers should not be penalised for their requirement for vacant possession which frequently gives rise to protracted letting voids prior to a start on site or demolition. Local government should be encouraged to identify zones in which properties identified for development could be exempt from empty property rates prior to redevelopment. We believe this would stimulate the active management of properties for this purpose and encourage the redevelopment of obsolete premises into viable and attractive buildings.

Our recommendations

- Do not increase business rates for 2012 in line with September's Retail Price Index (RPI) measurement of inflation, but at a lower rate.
- Re-introduce empty property rate relief in line with the arrangements pre April 2008 (100% relief for the first 3 months followed by 50% relief). At the very least review the effectiveness of Government's policy on taxing empty property.
- Introduce business rates exemption zones in town and city centres where property owners and developers are committed to regeneration schemes or significant redevelopment

Consider the introduction of fiscal incentives to encourage refurbishment of commercial property

It is estimated that there are now 820 shopping centres with 13,000,000m² of lettable area in the UK, with 500,000 car spaces. Using benchmark parameters these centres are responsible for nearly 3,000,000 tonnes of CO₂ emissions, split between the tenanted areas and common areas. One of our primary aims, as embedded in our BCSC Sustainability Charter, is to significantly reduce carbon emissions from buildings in the retail property sector.

We are committed to working with our members' to achieve the UK Government and the EU's objectives for significant energy efficiency improvements in buildings and believe that good design, and low carbon technologies should be employed in the UK's shopping centres in order to achieve this objective.

However, the cost of doing the necessary refurbishment of properties can be prohibitive, especially in a weak economy, and therefore we believe that if the Government is serious in making all commercial buildings low carbon then appropriate fiscal incentives need to be established, along with the provision of information about energy consumption and ways to reduce energy use.

We support proposals contained within the recent Local Government Resource Review consultation to incentivise investment in renewable technologies. Technical Paper 8 stated that its starting point for determining what projects will be regarded as renewable for the purposes of business rates retention would be the criteria set out in The Electricity Supply Industry (Rateable Values) (England) Order 2000. We believe that these criteria are relatively narrow and for example, although generally including renewable sources eligible for Renewable Obligation Certificates, do not include some primary energy sources that are zero or low carbon but not 'renewable', such as sources of waste heat and gas fired CHP. We would like Government to therefore consider extending this approach to a wider range of zero or low carbon technologies.

We appreciate that the establishment of the Green Deal is intended to provide such an incentive, but we urge the Government to do more to look at further options. It is vital that Government explores all potential means of encouraging property owners to refurbish their building stock appropriately. Against this backdrop, we would also urge the Government to continue to look at ways to streamline and simplify the various taxes impacting on the property sector. We would urge Government to look to ensure that the CRC, Feed in Tariffs, The Green Deal and Renewable Energy Obligations are all working effectively together rather than pulling companies in different directions. We would also strongly call on the Chancellor to resist ratcheting up the cost of carbon within the CRC scheme.

Our recommendation

- Commit to reviewing available fiscal incentives to better encourage refurbishment of commercial property
- Review existing measures to ensure effectiveness and reduce burden on business