

An aerial photograph of a town, likely in the UK, featuring a prominent clock tower with two faces in the foreground and a church spire in the background. The sky is overcast with soft, grey clouds. The town's architecture is a mix of stone and brick buildings with various rooflines.

TRANSFORMING TOWNS:
DELIVERING A SUSTAINABLE
FUTURE FOR LOCAL PLACES

fsb⁰⁸
Experts in Business

Introduction

Scotland is a nation of towns. Rural and urban towns; market and new towns; industrial and commuter towns; and thriving and struggling towns.

Although they are home to tens of thousands of businesses, employers and entrepreneurs, their economic and political importance has waned in the last decade or so – due almost entirely to the focus on cities as key drivers of economic growth. As a result, and despite a number of useful projects funded by the Scottish Government’s Town Centre Action Plan, many towns are in decline and require significant investment.

**Two thirds of people
in Scotland live in towns¹**



Nevertheless, there is cause for optimism. In recent years, independent traders have been filling the units which have been left vacant by big businesses in places across Scotland.

Further, the Federation of Small Businesses (FSB) successfully convinced the Scottish Government to launch a £50m Town Centre Fund.

“Town centres are facing challenges across Scotland in adapting to a changing retail climate and... I want to make sure we can keep life in our high streets, and ensure they continue to be thriving places for communities to live, work and enjoy.”²

Derek Mackay, Finance Secretary

South of the border, we secured a £675m Future High Streets Fund in the 2018 UK Budget and, more recently, the UK Government launched a £1.6bn Stronger Towns Fund, drawing a direct link between Brexit and economic decline. Announcing the fund, then Prime Minister Theresa May said:

“For too long in our country prosperity has been unfairly spread. Our economy has worked well for some places but we want it to work for all communities. Communities across the country voted for Brexit as an expression of their desire to see change – that must be a change for the better, with more opportunity and greater control.”³

While these announcements have been welcomed by the small business community, the scale of the challenges facing towns and high streets – competing with online, out of town and cities; absorbing rising operating costs such as rents, rates and utilities – requires ongoing investment and attention from governments. One or two funds will not be enough.

To steer our places through the biggest economic change since the collapse of heavy industry in the 1980s and early 1990s, businesses, communities and governments have to work together to fashion a new future for towns: one that is less reliant on traditional retail to fill vacant units and allows a variety of commercial and residential activity on our high streets – whether that’s more housing, offices, co-working spaces or pop-up units in towns.

Though the solution will differ from place to place, FSB believes that plans to diversify towns have to be guided by the following points:

1. Boosting the economic impact of local businesses in towns across Scotland given those businesses' central role in local economies.
2. Adopting regeneration strategies from the past will not enable Scotland to overcome these stubborn challenges, nor create more inclusive economies. New approaches are urgently required which incorporate social interventions to make places safe, for example, and economic ideas to diversify local economies.
3. Regenerating struggling places, many of which are experiencing market failure, will only be possible if the Scottish Government and the UK Government make a generational commitment to invest in towns.
4. Enhancing the economic impact of anchor institutions, such as local authorities, hospitals and colleges, on local places is vital. Irrespective of their financial challenges, they must continue to maintain and grow their presence in towns. This is particularly important when big businesses like banks and multiple retailers are closing down.
5. Simultaneously focusing on the current and future challenges facing local places. In many cases, this will require parallel conversations about traditional issues such as parking and business rates, together with less familiar subjects such as climate change.

That is why we have published this collection of ideas on the future of towns in Scotland.

Idea 1: Investing in the long-term success of towns

As things stand, the Scottish and UK Governments, local authorities and partners will invest around £4.2bn in city regions over the next decade or so. Typically, operational city region deals invest in big capital projects like the Oil and Gas Technology Centre in Aberdeen and the Canal and North Gateway in North Glasgow – and in some cases have become a default way to develop local economies.

However, though these deals purport to be investments in the wider regional economy, the projects funded tend to be in cities and/or focused on improving access and infrastructure into cities. The Scottish Government has supported its Town Centre Action Plan through small-scale funds. The Town Centre Housing Fund, for example, invested £4m to build 82 affordable homes.

Further, due to public spending cutbacks, many local authorities have been unable to make the types of economic interventions that were common prior to the economic downturn.



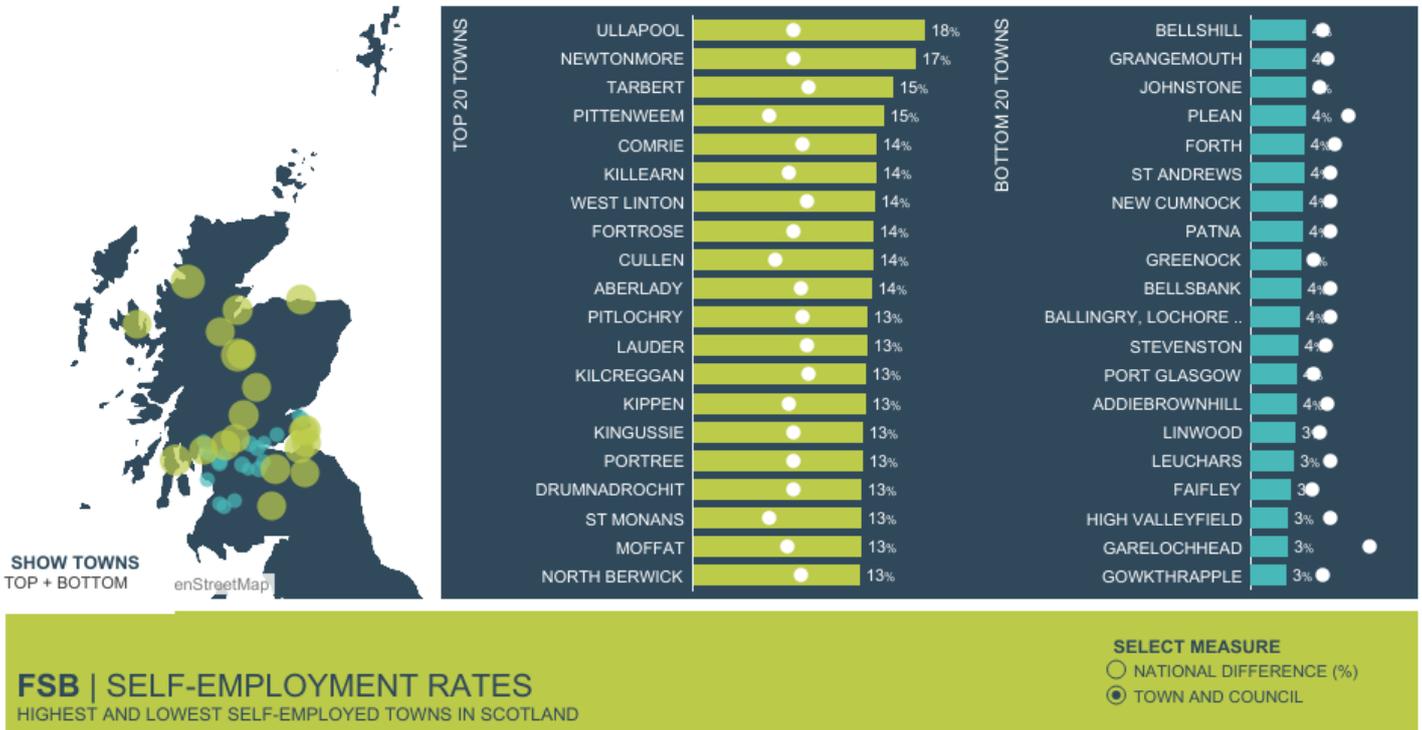
Over the last five years, funding for local planning and economic development services has been cut by 28%

As a result, many towns have experienced economic decline despite the best efforts of their local communities. A new approach is required to ensure that all of Scotland benefits from large-scale government interventions – and not just cities – and this is especially the case in poorer areas.

The creation of a £50m Town Centre Fund by the Scottish Government, as recommended by FSB ahead of the current Scottish Budget, and the UK Government's Stronger Towns Fund, therefore represent a welcome departure and much-needed capital investment. For towns in Scotland to have a sustainable future, however, a longer-term financial commitment is required from governments.

For the UK Government’s £1.6bn Stronger Towns Fund to support local economies in Scotland from 2019 to 2026, £50m per year should be earmarked for towns that are performing relatively less well than the Scottish average.⁴ In particular, there should be a specific focus on areas with low levels of entrepreneurship.

Image 1: Top 20 and bottom 20 towns by self-employment rate



For the Scottish Government, the creation of a Scottish National Investment Bank (SNIB) and its “mission-orientated” approach is a unique opportunity to ensure that inclusive growth is delivered in struggling local places.

The Scottish Government will invest £2bn over 10 years to capitalise the Scottish National Investment Bank



The rationale is clear. Though the challenges facing towns across Scotland differ, a common feature is the lack of investment available to transform their fortunes. This is especially the case in areas with low economic activity, poor productivity and high unemployment – places that, to date, have struggled to attract significant private investment due to the less certain prospect of future commercial returns.

To provide this finance, the Scottish Government, the Bank’s main shareholder, should allocate £40m per year in the next decade to fund transformational regeneration projects as part of the “promoting inclusive growth” mission – with a key focus on the redevelopment of empty units in towns.

Idea 2: Delivering smart solutions for empty units

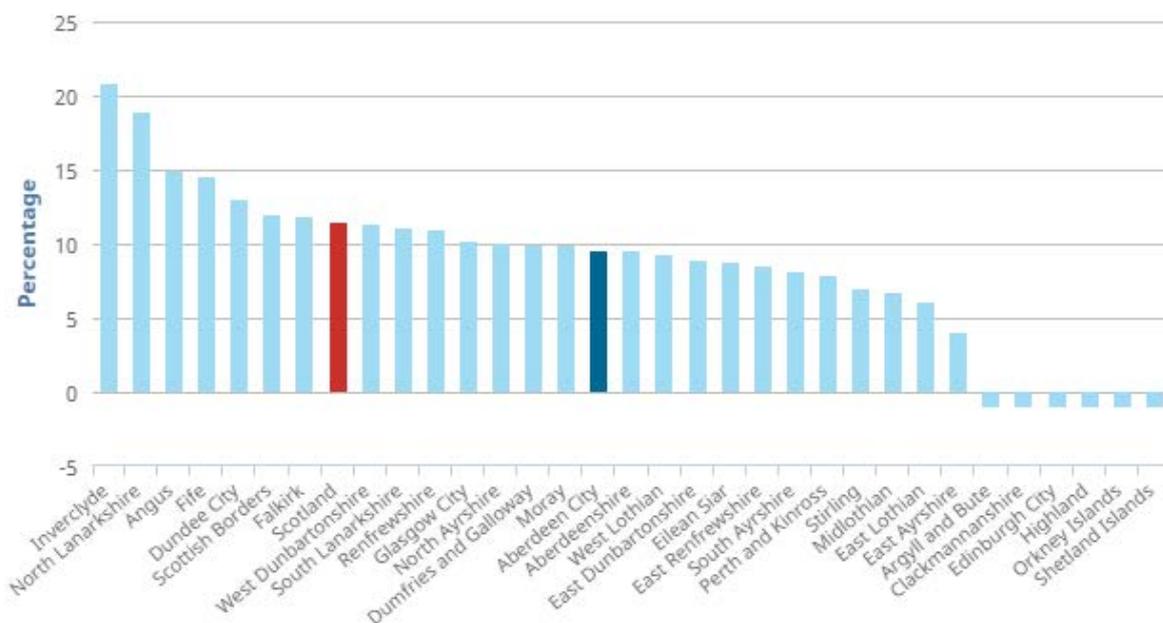
The “death of the high street” has become a popular phrase in recent years due to the spate of big business closures – from RBS to BHS, Toys R Us to Thomas Cook, and Maplin to Carpetright.



Between 2016 and 2019 there have been 414 store closures in Scotland

Indeed, the proliferation of empty units is perhaps one of the biggest problems facing towns. It is, after all, a visible sign of economic decline. Since 2014, an average of one in ten (10.9%) town centre properties have been vacant across Scotland.⁵ As table 1 shows, this masks considerable local variation with one in five vacant properties in Inverclyde (20.8%) and just 4% in East Ayrshire.⁶

Table 1: Town centre vacancy levels by council area, 2017-2018



Though there are signs of recovery across Scotland, driven in part by independent traders, finding long-term tenants for these units, especially in poorer areas, will be difficult given the fragility of many local economies. However, tenants can be found if the terms of the lease are right and with help and support from third parties.

Take Appear Here, for example.⁷ This innovative online marketplace, operating in 19 locations in the UK, US and France and billed as an “Airbnb for retail”, makes vacant retail space open to anyone with an idea – whether the business wants to rent the space for a day, a month or a year. Founder and CEO Ross Bailey said:

“All rates and rents and utilities are included... [it’s] simple - no add-ons, no hidden extras. We give you one price. Nothing is hard to understand.”⁸

There are numerous other creative ways to fill empty units including:

- Offering empty publicly owned premises for free to local businesses looking for a space, an approach recently launched in the City of Glasgow Council’s High Street Area Strategy⁹
- Taking inspiration from Crieff and other areas and creating co-working spaces¹⁰
- Creating creative spaces, like Made in Stirling, which offer a variety of experiences – shops, galleries, workshops and event venues¹¹
- Converting empty commercial premises into places to live within town centres¹²
- Creating town-based recycling facilities for the upcoming Deposit and Return Scheme

Nevertheless, there are persistent barriers preventing local businesses, local authorities and local communities from transforming long-term empty units into productive spaces – notably absentee or neglectful owners. As a result, the Scottish Government should set up a new commission, modelled on the work of the Transforming Vacant and Derelict Land group, to investigate the scale of the problem and outline creative solutions.



Idea 3: Providing targeted tech help for high street retailers

At the end of last year, the chairman of Marks and Spencer, Archie Norman, said that:

“This business is on a burning platform. We don’t have a God-given right to exist and unless we change and develop the company the way we want to, in decades to come there will be no M&S.”

Ordinarily the commercial experience of a high street giant, such as Marks and Spencer, and the experience of a local business bear little resemblance. Nonetheless, both large and small operators continue to struggle to adapt to the growth in online shopping. Indeed, as a recent House of Commons report highlighted, UK consumers spend more online than any other European country – accounting for 18% of all retail sales.

Table 2: Internet sales as a percentage of total retail sales, 2007-2019: UK¹³



Growing numbers of businesses now realise they need to react to this change and to meet the needs and expectations of customers for whom online shopping is hard-wired into their everyday life.

While it is relatively easy for a business to use an online sales platform such as Ebay, effectively exploiting e-commerce often requires a wider change in how a business operates. In addition, while digital technologies can allow businesses to reach new markets, they can also help firms become more innovative, productive and efficient – such as service sector industries using online booking platforms to become more productive.

Taking inspiration from the successful Digital Boost programme delivered by Business Gateway¹⁴, Scottish Enterprise should create Digital Towns teams which offer expert, intensive and place-based enterprise support for the independent sector, with an initial focus on large towns such as Paisley, Dunfermline, Cumbernauld and Irvine. These teams would be collaborative and include expertise from the public, private and third sectors to improve the digital capabilities of independent traders.



Idea 4: Creating a network of low carbon, smart towns

The smart city agenda, where cities use digital and technological solutions to improve physical and digital infrastructure, is progressing globally from Singapore to Copenhagen, and from Barcelona to Glasgow.¹⁵ Typically, smart city projects use technology to create greener places by improving air quality, creating more integrated transport networks and heating and lighting buildings more effectively.¹⁶

In Scotland, this debate is increasingly shaped by two pressing Scottish Government commitments:

1. Phasing out the need for new petrol and diesel vehicles in thirteen years' time – eight years ahead of the rest of the UK
2. Declaring a climate emergency and proposing a legally binding target date of 2045 for net-zero emissions of all greenhouse gas emissions

More recently, the City of Edinburgh Council has gone a step further and committed to becoming a zero-carbon city by 2030.

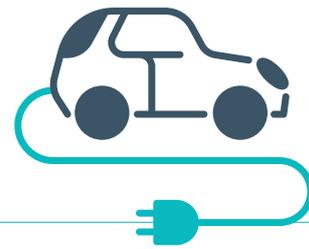
As things stand, the transition to smart, low carbon places appears to be a concern for cities alone. This is primarily due to the fact that Scotland's air pollution hotspots are located predominantly in cities and the focus of government is on improving air quality in these places – notably through the introduction of Low Emission Zones in Glasgow, Edinburgh, Aberdeen and Dundee by 2020.



To prevent a divide appearing in the future between successful cities and struggling towns, the Scottish Government should set up a taskforce, led by Transport Scotland and Scotland's Towns Partnership (STP), to develop a smart towns agenda. By using an exemplar town, STP could create a roadmap for local places on two fronts:

1. Outlining how low carbon infrastructure could be built, with a specific focus on electric vehicles.
2. Ensuring there is capacity within local energy distribution networks to charge electric vehicles. This latter point is critical since take-up of new technologies will place added strain on existing energy network capacity.

If one in four cars in Scotland were electric, the current power network would struggle to cope



Idea 5: Giving high streets extra relief

The Scottish Government's Small Business Bonus Scheme (SBBS) continues to provide vital help for smaller businesses in towns up and down the country. On average, it saves ratepayers £2,127 a year.

57%

Over half of FSB's premises-based members pay no business rates

Given the impact it has had on making town centre locations affordable for independent traders, the Scottish Government must retain the SBBS and the upcoming review should focus on helping local firms.

The Small Business Bonus Scheme delivers £15.6m of rates help in Fife each year



Scotland's local authorities have the power to introduce targeted rates relief schemes, though these powers are seldom used. Despite the financial challenges facing local authorities – a particular issue for councils like Fife with large numbers of towns – there remains scope to offer discrete and targeted rates help on hard-pressed high streets.

For instance, a council could, following the closure of a national retailer, introduce a rates discount scheme for local, independent businesses outside the scope of the SBBS. Or if a local authority was making a significant investment in a local place, they could offer additional time-limited rates relief to attract additional private investors.

The Improvement Service, COSLA and the Scottish Government should have a role supporting councils in the design of their reliefs.

Idea 6: Modernising Scotland's commercial property market

Although an oft-cited example, business rates are not the sole source of rising, unpredictable costs or onerous trading conditions. Levels of rent and the operation of certain aspects of commercial leases can also make life harder for those seeking to do business on the High Street.

Some of the challenges are well known: from upwards-only rent reviews to dilapidation charges. But there is also a range of more specific issues, such as those around the termination of leases, currently being explored by the Scottish Law Commission¹⁷, where the need for modernisation is apparent.

It is argued that many of these issues have their roots in the fact that the Scottish commercial property market is largely unregulated, which exacerbates the negotiating power imbalance between large landlords and their small business tenants.



The commercial property market in Scotland is largely unregulated

One way to address this may be the statutory inclusion of some form of standard terms in commercial leases for small businesses.*

*Or, more accurately, in leases below a certain value.

Such a standard form lease, that smaller tenants and landlords could complete themselves, with standard clauses and provisions – some of which could be amended by agreement, some of which could not – would be quicker, reduce cost and provide certainty about both sides’ obligations. It may also help reduce inequalities in the parties’ bargaining positions.

While this may be regarded as a radical departure in some quarters, in practice it might not be entirely dissimilar from the use of the Scottish Standard Clauses in residential conveyancing. The Scottish Government should, therefore, examine the case for such modernisation alongside the other commercial property law reforms currently under consideration.



Idea 7: Rolling out shared banking hubs in hard-hit towns

Scotland has seen a substantial reduction in its bank branch network with many small business losing their local bank. In 2013, there were over 1,000 (1,123) branches in Scotland, a figure that is set to drop to under 800 according to FSB research. As a result, there are growing numbers of towns, such as Lochgelly, Gourock and Dornoch, which have no banks.

**Between 2016 and 2018,
big banks closed around
10 branches every month**



These closures will leave hundreds of empty premises in towns and villages across Scotland. Further, this move will make it more difficult for smaller businesses to access financial services, as well as conduct a host of standard business banking transactions (e.g. depositing cash).

This problem risks being exacerbated by the threat to Scotland's ATM network – with around 30 cash points closing north of the border every month.¹⁸



**SME lending growth reduces by 104%
in areas that lose their last bank¹⁹**

To tackle this problem Scotland's biggest banks should roll-out shared banking hubs, starting with the largest towns with no local facilities. In addition – following the recommendations of the Access to Cash Review – a UK-wide regulator should to be given explicit responsibility for protecting access to notes and coins.

References

¹www.bit.ly/2OquBtf

²www.gov.scot/news/new-scheme-to-support-town-centres

³www.gov.uk/government/news/16-billion-stronger-towns-fund-launched

⁴www.gov.uk/government/publications/stronger-towns-fund/stronger-towns-fund-questions-and-answers#what-happens-if-i-live-in-scotland-wales-or-northern-ireland

⁵www.improvementservice.org.uk/documents/benchmarking/overviewreport1718.pdf

⁶www.improvementservice.org.uk/benchmarking/explore-the-data.html

⁷www.appearhere.co.uk

⁸www.bit.ly/2YUdsIZ

⁹www.glasgowcitycentrestrategy.com/wp-content/uploads/2018/11/High-Street-Area-Strategy-Low-Res.pdf

¹⁰www.candoplaces.org

¹¹www.creativestirling.org/made-in-stirling

¹²www.scotlandstowns.org/town_centre_housing_fund

¹³www.twitter.com/resfoundation/status/1108701404414296065

¹⁴www.bgateway.com/resources/digitalboost

¹⁵www.futurecity.glasgow.gov.uk

¹⁶www.localis.org.uk/wp-content/uploads/2019/01/026_SmartCities_WEBAWK.pdf

¹⁷www.scotlawcom.gov.uk/files/4215/2699/8107/Discussion_Paper_on_Aspects_of_Leases_-_Termination_DP_No_165.pdf

¹⁸www.heraldsotland.com/news/17650404.one-in-five-cash-machines-in-scotland-to-charge-in-a-year

¹⁹www.medium.com/move-your-money/abandoned-communities-the-crisis-of-uk-bank-branch-closures-df4738cc9ce9

