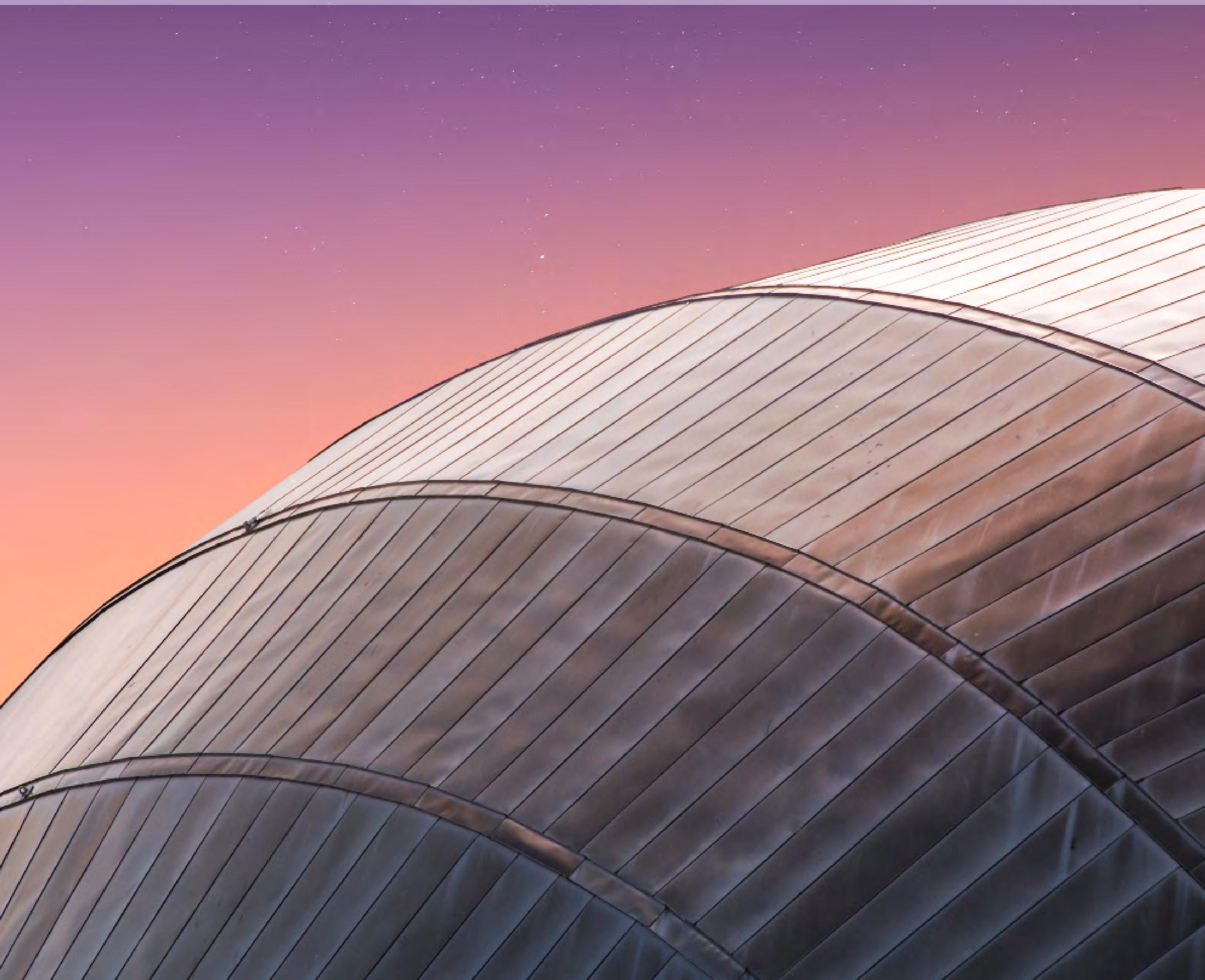
SPF VOICE

November 2020



INSIDE THIS ISSUE

Michaela Sullivan MRTPI
SPF Chair

MySPF Digital Series

Join us for our **'What's next for where we live'** webinar 3 December 2020 at 12:30pm

Register here

In my early weeks as SPF Chair I felt it was vital to get early engagement with our key stakeholders in the Scottish Government.

It was a pleasure therefore to receive a warm welcome for my first direct meeting with Ben Macpherson MSP, Minister for Public Finance together with his officials in rating, devolved taxation, and property. While there are issues we may not agree on, I know very well from my own time in government that it is important to maintain a constructive dialogue with government so that we can represent your views and inform, improve and influence policy on real estate. I will continue, across my year as Chair, to build on this positive relationship established by Robin and David in the last year.

Although the government carried the day in parliament to delay the non-domestic rates revaluation, the Minister is aware that the revaluation needs to proceed on a well-managed basis. Our members have been encouraged to engage with the valuers and, where necessary, put forward our own information to provide a more informed platform on which to base the revaluation process.

The Business Growth Accelerator was also discussed and the Minister was clearly aware that there is a need for these provisions to be reviewed and that this was a live conversation to be continued. Going forward, David will be consulting members to provide further written evidence to underpin future discussions in this area.

We also discussed the complex issues around the landlord-tenant relationship and particularly small business tenants. This is a subject which the SPF team will continue to raise so that an appropriate balance can be struck between the best interests of tenants, landlords, investors and lenders.

The imperative of the low-carbon agenda was the final item in our discussion and we stressed the need for policy and decision-making to be aligned - especially where there may be a level of objection to the infrastructure needed to deliver a lower carbon Scotland. We were invited to "watch this space", as the position statement for National Planning Framework 4 will be released very soon and is tuned to set the scene for the ambition to achieve net-zero.

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POLICY INSIGHTS

ENERGY EFFICIENCY REGULATIONS FOR PRS

Housing Minister Kevin Stewart has notified the Scottish Parliament that the government intends to re-lay regulations on setting a minimum energy efficiency standard for privately rented homes. The Energy Efficiency (Domestic Private Rented Property) (Scotland) Regulations 2020 were originally approved by parliament in March with the first standard due to come into force for new tenancies last month. As a result of the coronavirus, the implementation of these regulations was indefinitely postponed.

However, Mr Stewart has now said that the regulations are planned to come in to force in April 2021, with any new tenancies let from that date requiring to meet an energy efficiency standard of EPC D or hold a valid exemption. This differs from the original regulations, where meeting the standard of EPC D was not due to be in force for new tenancies until April 2022. We are concerned about the lack of notice this gives to landlords and are awaiting clarification from the government about its revised timetable.

UK BUILDING SAFETY BILL

While much of the property industry's regulation north of the border is set by Holyrood, the UK Government's draft Building Safety Bill will have implications for Scotland in a number of important areas (although Legislative Consent is expected to be required from the Scottish Parliament). The draft Bill, which was published in July, is due to enter parliament soon after Westminster returns from Christmas recess and its legislative journey is expected to conclude by the end of 2021.

One of the areas that will affect Scotland is the proposed amendment to the Architects Act 1997. The amendment will introduce new UK-wide regulations to ensure those carrying out design and building work have the appropriate competence for their role. There will also be changes to regulatory systems in relation to the recognition of international qualifications for the purposes of architect registration in the UK. The draft Building Safety Bill also proposes the establishment of a New Homes Ombudsman, which will have the power to operate in Scotland.

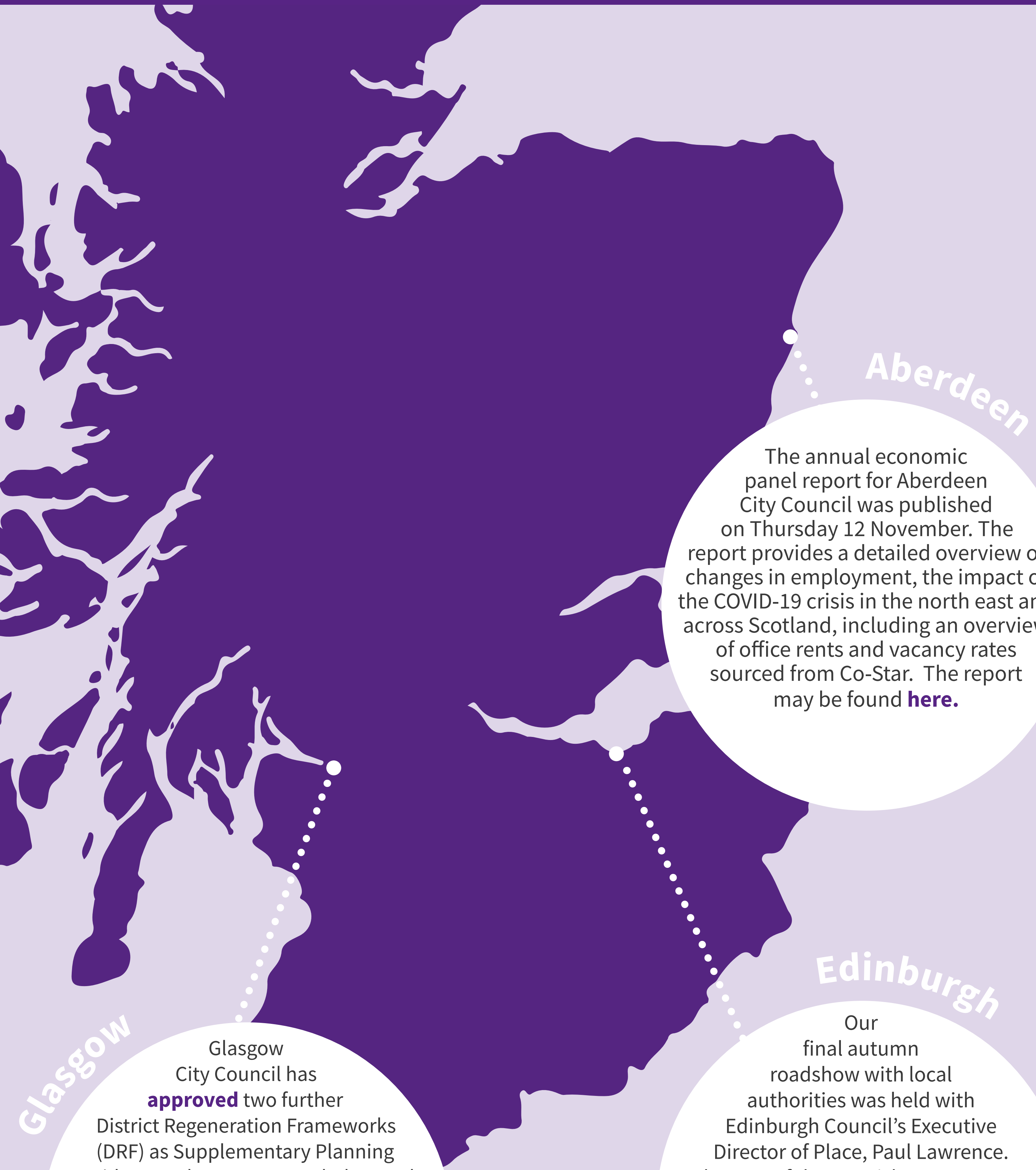
WHERE NOW FOR BUSINESS RATES?

In February this year, the Scottish Parliament passed its first bespoke non-domestic rates primary legislation since the parliament was reconvened. Events since this Act have significantly affected the rating world. First, the Scottish Government followed the UK in delivering unheard of levels of rates relief, including 100% relief for the retail, hospitality, and leisure sectors, which in total represented a £1bn support package. Second, the economic impact of COVID-19 led to a submission of some 50,000 rating appeals based on the grounds of material changes of circumstances – and finally the decision to postpone the revaluation by a year to 2023.

In the midst of these issues, it is important not to lose sight of other key reforms due to impact ratepayers. The business growth accelerator is due to see new regulations for relief for new and improved properties introduced subsequent to the Non-Domestic Rates Act passed earlier this year. This will be an opportunity to address concerns members have raised with the ability to claim for relief on redeveloped buildings. Significant new powers to penalise ratepayers failing to return information notices to Assessors have also been approved. The maximum fine available to Assessors under these new powers is up to 71% of a property rateable value, which could easily run to hundreds of thousands for an unfortunate taxpayer. We continue to believe this is a wholly disproportionate prospect.

The recent discussion led by SPF Chair Michaela Sullivan with Public Finance Minister Ben Macpherson and officials was striking for the concern expressed about the need to achieve a relevant and well-informed tax base. Already members are seeing significant amendments to pre-COVID-19 lease agreements, including in relation to rent renegotiations. If the rates system is to improve and be more relevant to its ratepayers, it will be important for assessors to be informed of major changes to rental levels. We would encourage members to work with assessors to ensure they have a better understanding of the rental markets. Ultimately, if the revaluation is ill-informed, it is only likely to lead to a poor and unfair distribution of the tax base.

REGIONAL SPOTLIGHT



The annual economic panel report for Aberdeen City Council was published on Thursday 12 November. The report provides a detailed overview of changes in employment, the impact of the COVID-19 crisis in the north east and across Scotland, including an overview of office rents and vacancy rates sourced from Co-Star. The report may be found **here.**

Glasgow City Council has **approved** two further District Regeneration Frameworks (DRF) as Supplementary Planning Guidance. The two areas, Blythswood and Central district, are the 4th and 5th of nine DRFs identified by the Council. The DRFs outline a mixture of blue and green infrastructure requirements and emphasise making use of the built heritage in each area, active travel and opportunities for redevelopment.

Our final autumn roadshow with local authorities was held with Edinburgh Council's Executive Director of Place, Paul Lawrence. The CEO of the Scottish Futures Trust, Peter Reekie, provided an insightful introduction on the draft infrastructure investment plan and members had the opportunity to engage and question both Paul and Peter on the practical aspects of the investment plan and its relationship to Edinburgh.

RESEARCH

COMMERCIAL SALES Q3 2020

£468M

Total value of commercial property sales in Q3 2020

53% down from Q3 2019

£535M

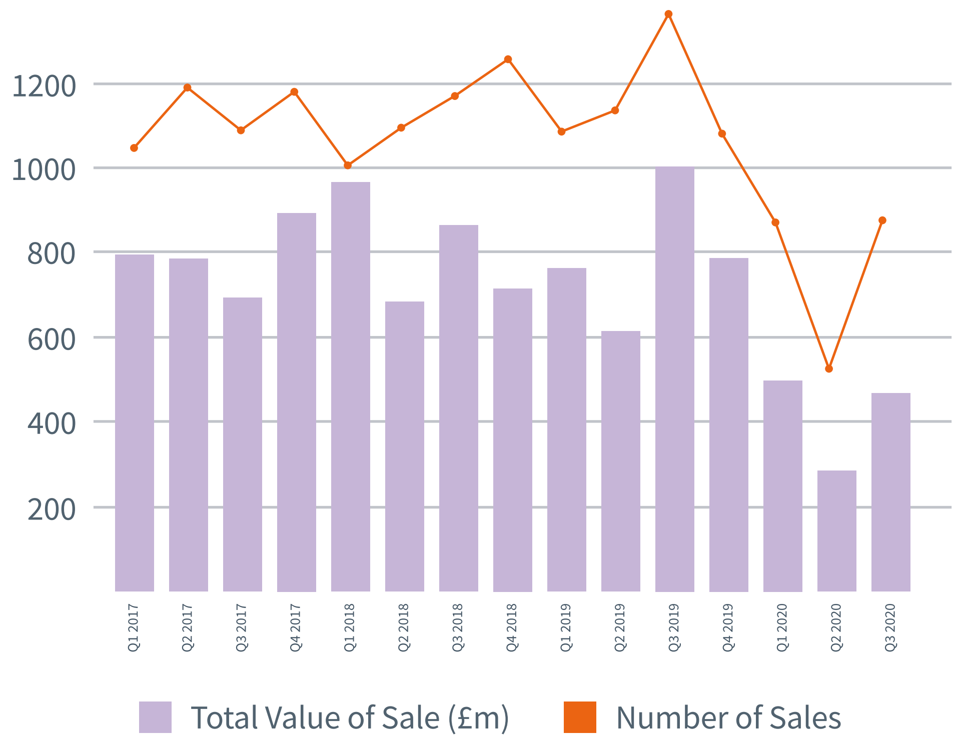
876

Number of commercial property sales in Q3 2020

36% down from Q3 2019

488

Value and Number of Commercial Property Sales in Scotland



ABERDEEN £26M EDINBURGH £171M GLASGOW £76M DUNDEE £9M REST OF SCOTLAND £186M

Figures may not sum due to rounding. Figures from the Registers of Scotland includes all commercial property transactions.

OVERVIEW

The SPF's analysis of the latest commercial property sales figures from Registers of Scotland has shown that sales recovered in Q3 (July-September) 2020 compared to the record lows of Q2 2020. The total value of Scottish commercial property sales hit £468m in the quarter, £183m (64%) higher than Q2. However, on an annual basis, the coronavirus continues to have a significant impact on commercial sales volumes with the total value of commercial property transactions ending the quarter £535m (53%) down on the same quarter in 2019.

Meanwhile, the number of commercial property sales totalled 876 in Q3 2020, up 351 (67%) on the previous quarter, but down 488 (36%) on the same quarter in 2019.

HIGH VALUE SALES

Totalling £235m, sales above £5m accounted for half of the total commercial property market in Q3 2020. While the number of individual sales above £5m decreased in Q3 2020 compared to the previous quarter, the total value of this section of the market increased by £122m (108%) over the same period.

CITIES

For the second quarter in a row, Edinburgh saw the highest value of sales out of Scotland's four largest cities, with £171m transacted in the Capital over the quarter. This is up from £91m in Q2 2020 but behind the £462m generated during the same quarter in 2019. Glasgow and Dundee also saw their sales increase on Q2's total to £76m and £9m respectively; however, commercial property sales dipped by £18m to £26m in Aberdeen over the same period.

INDUSTRY INSIGHT

Building the Future - risks and priorities for construction

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Construction firms continue to face huge challenges and uncertainties with national lockdowns, continued regional restrictions and the need for increased safety measures. Although the sector has so far shown resilience and is deemed central to this Government's economic recovery plan, there is a perfect storm on the horizon of unpredictable supply chains and long-term pipelines, lack of clarity on trade with the EU from 1 January and a raft of tax and VAT changes.

To remain fit for the future, all businesses need to innovate, streamline processes, harness technology and attract skilled workers. As part of our **Building the Future** series, we take a look at the risks and priorities for construction from supply chains to the Domestic Reserve Charge.

The supply chain

The construction industry relies on intricate construction supply chain management. The knock-on effect of one supplier falling out of the chain can be significant, and the impact of the coronavirus pandemic has increased the likelihood of this happening meaning supply chains are more fragile than ever.

Lockdown restrictions and new safety measures resulted in sites being shut and, in some cases, mothballed for a longer period. With most contracts getting back on track, the spotlight turns to the supply chain and whether without the continued support from the government schemes they are sustainable. Many contracts have incurred extra costs and missed delivery deadlines with no Extensions of Time in place. Costs will need to be absorbed somehow.

Future pipeline of materials

Many of the products required on construction projects are unique, often a bespoke design and built using a plethora of suppliers. If one of these suppliers is not able to produce the materials at the right time a ripple effect can flow to the rest of the project frequently resulting in added costs and lost time, both of which are a precious commodity on construction sites.

Embracing true end to end visibility within your supply chain will enable you to identify the risks in your chain and consider alternatives. Technology plays a crucial part here. Being able to produce real time data and using analytics to produce insights into that data will help with proper visibility.

Insolvency in the industry

The immediate impact of the coronavirus pandemic has meant many businesses struggled with maintaining their cash flow. Although there has been unprecedented Government support, the industry needs to be braced for a continued increase in insolvencies and the risk that poses to supply chains.

Businesses need to make sure they review contracts and maintain robust communications with contractors and subcontractors to help identify any issues, avoid any additional costs and delays and be able to adapt to any changes in the supply chain.

Tax and cash

The construction sector will see significant changes in the way tax is accounted for and collected in the future. This will have an impact on the cash flows of the supply chain as Domestic Reverse Charge (DRC) is introduced on 1 March 2021 and off payroll working IR35 comes into force on 6 April 2021.

The introduction of the DRC represents a major change in the way VAT is accounted for, which will have a profound impact on cashflow for many contractors and will require significant changes to accounting processes and controls.

The new rules are simple in concept yet complex in the detail, and construction businesses will need to be fully aware of their obligations to avoid creating unnecessary VAT costs.

It is widely considered that many sub-contractors are unprepared for the cash flow impact that will arise as a result of the changes. Many businesses use the VAT that they collect from their customers as working capital before it is required to be paid to HMRC, which can be up to three months after payment has been received. The loss of that working capital in affected businesses on top of the challenges posed by the coronavirus is inevitably going to result in financial difficulties for businesses.

Carry out a readiness assessment or gap analysis to identify changes you will need to make to current systems and processes to ensure compliance with the rules.

For many businesses, the DRC scheme's introduction will coincide with the VAT period in which any VAT that has been deferred under coronavirus needs to be paid to HMRC. This makes it vitally important to consider the cashflow implications of the introduction of the new scheme.

Construction businesses whose main source of income comes from sub-contractors should act now to model the anticipated cashflow impact and avoid any unexpected surprises in March. Main contractors who engage sub-contractors should also consider the commercial effect of this cash flow impact for sub-contractors to minimise the disruption for their business.