

## Response ID ANON-51CA-P5FU-A

Submitted to Scotland's public finances in 2022-23 and the impact of Covid  
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### About you

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I would like my response to be published in its entirety

3 What is your name?

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5 Are you responding as an individual or on behalf of an organisation?

Organisation

Organisation :  
Scottish Property Federation

### Your Views

1 How should the Scottish Government's Budget for 2022-23 address the need for a fair and equal recovery from the Covid crisis?

Please provide your response in the box provided.:

- In relation to the Coronavirus Acts, the SPF is concerned that our well-respected property legal system is being undermined by changes to the landlord-tenant relationship and this could create a barrier to much needed future investment. It is therefore critical that any extensions of the provisions in the Coronavirus Acts that create an unbalanced relationship between landlords and tenants are not continued for any longer than necessary.
- The Scottish real estate industry creates a roof over the head of our economy and our communities. The sector contributes to securing economic recovery and jobs and offers employment opportunities across a vast range of skills and professions. The property industry also directly supports our higher education institutions through supplying much needed quality student accommodation. Yet the industry needs a fair and effective business environment in which to invest, develop and support the occupation of commercial, residential, and public buildings and places.
- The Scottish real estate sector is by its nature wide-ranging and not all development projects or sectors have been eligible for the Government's fiscal support through the various funds and programmes.
- Throughout the pandemic, the property industry has worked in collaboration with tenants struggling to pay their rent and service charges. A British Property Federation study of 16,320 retail, hospitality, and leisure property leases across the UK, found that 77% of rent owed from March 2020 has either been paid or an agreement reached on arrears including payments plans, waivers, and rent holidays and deferrals. This means that only 23% of rent owed since March 2020 remains unresolved, where property owners and tenants have not yet been able to agree how this debt should be managed. This includes a small minority of tenants (14%) who are currently refusing to speak with property owners, despite a proactive approach to reach an agreement.
- Our members are clear that those tenants who can pay rent should do so, and those tenants who need support should be helped where a property owner has the means to do so.

2 How should the Scottish Government's Budget address the different impacts of the pandemic across age, income and education groups and across places?

Please provide your response in the text box provided. :

- Provide additional resourcing for planning to support a flexible and efficient planning system to enable development and investment with effective collaboration between private, public and community stakeholders. Planning is instrumental in achieving national outcomes both directly and indirectly and balances the main drivers of the National Performance Framework. It is therefore important that the planning system is a dynamic enabler of

development and investment. Planning and tax incentives to encourage mixed-use developments could support regeneration and help realise the ambition of 20-minute neighbourhoods.

- Continue work to establish Green Ports and development zones to create places for employment in both rural and urban communities through targeted support for investment and jobs.
- Develop a national strategy to fund education facilities and well distributed primary and secondary healthcare facilities to enable investment and new development. It is important to consider the implications of changing demographics within society and the implications for later life healthcare and the facilities that communities will require across all age ranges. In light of the COVID-19 pandemic, consideration should be given to investment in the centralisation of health care facilities and refocusing a level of care on better distributed local community facilities.

3 In 2022-23, it is likely that there will be reduced levels of available Covid-related financial support for the public and private sector. Given this, what should be the priorities for the Scottish Government's Budget?

Please enter your response in the text box provided. :

- Support new connections to the electricity grid: The electrification of heat and cooling in buildings, and of transport, will be critical to Scotland achieving net zero by 2045. To support this, the Scottish Government must prioritise the enhancement of Scotland's electrical grid to enable it to meet the significant increase in demand that heat pumps and electric vehicle charging will cause in the near future. The SPF is already aware of projects that are threatened by the lack of capacity in the grid and the significant upfront costs involved in gaining a connection from Distribution Network Operators. We believe that there is a role for the Scottish Government in providing forward funding (through grants and loans) to ensure that the cost of connecting to the grid does not delay or prevent the provision of much needed new homes and commercial properties. Government intervention may also be important if costs are not to be passed onto the consumer/occupier of the property. The bottom line is that any investment in the electricity network will have a lasting and important impact on Scotland being able to achieve net zero.
- Incentivise the improvement of inefficient buildings: The planned introduction of minimum energy efficiency regulations across all sectors of the built environment in Scotland will help to make existing buildings more efficient to operate. While increased efficiency may lead to lower energy prices for owners and tenants, there is a need for significant up-front investment, which could be preventative for property owners and small & medium businesses without support. In addition to regulations, the redevelopment of existing properties to meet higher energy efficiency targets should be incentivised through the property tax system. Discounts on business rates and LBTT should be investigated by the Scottish Government as it could help to make more efficient properties more attractive to potential buyers and tenants, which in turn could provide a return on the investment made to improve a property. Funding and tax support to encourage the adaption and repurposing of heritage buildings to help create great destinations and support the unique character of our towns and cities is also an important consideration.
- Encourage investment into our high streets: The Scottish Government and the Scottish property industry must work together to ensure that empty premises on our high streets are not a lasting legacy of the pandemic. We would like to see key reforms to property taxation and a reduction or removal of charging empty property rates on shops and other business properties that often simply cannot be re-let due to wider economic condition. It is also vital that the Business Growth Accelerator is maintained to encourage redevelopment and to remove the risk of empty rates on speculative development. This is particularly important for the creation of non-traditional properties (such as laboratories) and to create the spaces needed to allow start-up companies to grow without having to relocate from Scotland.
- Better resourcing of planning departments: In addition to reforms to the business rates system, we need an efficient and effective planning system, and an alignment of public and private capital to deliver infrastructure. Local authority planning departments have seen significant cuts to their budgets, which has had implications for the speed of processing applications and the ability for authorities to think and plan strategically. It is vital for our long-term recovery that local planning departments are properly funded and able to respond quicker to economic and market changes. We believe strong collaboration with our industry will be needed more than ever in the wake of the pandemic, and to meet the huge challenges of addressing the climate emergency.

4 How should the Scottish Government's Budget address the risks arising from the level and rate of recovery from the pandemic in Scotland relative to the rest of the UK?

Please enter your response in the text box provided.:

- Empty Property Rates: We remain concerned about the impact of empty rates on properties left vacant by the pandemic. As the UK and Scottish governments begin to withdraw their coronavirus support measures, we expect to see more high street casualties and further vacant properties. Empty property rates are acting as a tax on distressed assets and deters much-needed investment in struggling high streets across Scotland. In addition to empty rates, property owners face a number of other significant costs, including energy and maintenance costs, and it is therefore in their interests to find an occupier as soon as possible. However, with current economic conditions leading to low demand, especially in the retail sector, securing a new tenant is extremely challenging.
- Non-domestic Rates Relief: We acknowledge and welcome the unprecedented level of government support provided to businesses generally during the pandemic emergency. The scale of support provided to businesses via the grants based on non-domestic rates eligibility and the speed with which this support was provided was hugely significant. While the country is now on a trajectory that will see restrictions eased indefinitely, it is important that the Scottish Government responds quickly with further support if any new restrictions are imposed. It should also be noted that some parts of the business community were not directly supported or were frustrated in their attempts to secure support.
- Business Rates: It is important that Scotland adopts a revaluation cycle that more closely reflect the commercial property rental market of the day. Of the nominal rateable value across Scotland, the retail sector accounts for at least £1.6bn. The continuing pressures on the retail sector which are seeing larger properties made empty and often in administration, could have significant implications for the non-domestic rates revenue in Scotland in the next series of revaluations.

- LBS: The Scottish Property Federation welcomes the Scottish Government's commitment to reduce the large business supplement over the course of the current parliament and is an important step towards meeting the Barclay Review's recommendations. However, a full realignment with the rest of the UK is needed to reduce the current disadvantage faced by some Scottish ratepayers in order to attract new large businesses to Scotland.

- Land and Buildings Transactions Tax: The current LBTT rates and thresholds have remained unchanged since the tax was introduced in 2015. We believe that the tax should be reviewed to ensure that it does not prevent individuals or families from being able to move within the housing market depending on their individual circumstances. We are particularly concerned about the 10% tax band, and believe that its threshold should be increased to £500,000 (similar to that set by the UK Government) to reflect the pricing of relatively modest properties in our largest cities and their suburbs. There are also economic headwinds facing Scotland's economy in the months ahead, and it is important that the Scottish Government does not increase the LBTT burden on residential purchases and that it maintains a close watch on how wider economic factors are impacting on the market when deciding its LBTT rates and thresholds.

- Scottish National Investment Bank: We would like to see the greater capitalisation of the Scottish National Investment Bank and more projects agreed to help recovery. We consider that it is vital to establish key priorities for investment in both infrastructure and other development, that will underpin long-term sustainable economic and private sector growth.

## 5 How has the Fiscal Framework worked in managing the response to the crisis?

Please enter your response in the text box provided.:

- As stated above the Scottish real estate sector is by its nature wide-ranging and not all development projects or sectors have been eligible for the Government's fiscal support through the various funds and programmes.

- During the first lockdown in March 2020, Scottish Government Guidance was to stop construction work with the exception of healthcare and educational projects. Building sites were effectively closed down for 15 weeks and contractors were able to put their employees on furlough. However, project completions were delayed, and additional construction and finance costs incurred by developers without any support.

- Although the media have suggested an increase in residential property transactions, perhaps reflecting pent-up demand after the lockdown on house moves, there should be no doubting the impact of Covid-19 on the whole of the property sector. Commercial property companies have seen their rental revenue denied and, in most cases, have sought to endure this drop in income without any level of support. Indeed, commercial landlords have offered significant support to their tenant customers. At the same time, they have faced the penalty of empty property rates despite financially supporting businesses during widespread market failure in the commercial property sector.

- More broadly, the SPF has supported calls for a form of National Infrastructure Agency to co-ordinate and deliver key infrastructure that will enable development to come forward. The lack of a national infrastructure co-ordination agency is a real missed opportunity, especially given the experience of some of our members, for example in schools funding. This causes unnecessary and long-term delays to projects that would bring major economic benefit to Scotland as a whole. Our members are of the view that a National Infrastructure Agency is important to ensure that there is an accountable, fair, and transparent structure in place for the full co-ordination of diverse funding sources. This would cover funding across key agencies, utility providers, local authorities as well as other public bodies and arrangements for the funding where appropriate between public and private sectors.

## 6 How should learnings from the pandemic inform the forthcoming review of the Fiscal Framework?

Please enter your response in the text box provided.:

- Our members would like to work with the Scottish Government and Parliament to implement a cross-government and industry strategy to adopt a three-pronged approach to support the recovery of our built environment:

- o Introduce measures to support new property development and the regeneration of existing buildings to be brought back into effective use.
- o Deliver key infrastructure to drive new growth and accelerate change in the use and occupation of our built environment.
- o Support for adaptation to sustainable energy supply and sustainable buildings in the property sector, to aid the achievement of a net-zero built environment.

- As stated above the Scottish real estate industry offers employment opportunities across a vast range of skills and directly supports our world beating higher education institutions through supplying much needed quality student accommodation. Yet the industry needs a fair and effective business environment in which to invest, develop and support the occupation of commercial, residential, and public buildings and places. That is why we seek key reforms to property taxation and a reduction or removal of charging empty property rates on shops and other business properties that often simply cannot be re-let. We need an efficient and effective planning system, and an alignment of public and private capital to deliver infrastructure. We believe strong collaboration with our industry will be needed more than ever in the wake of the pandemic, and to meet the huge challenges of addressing the climate emergency.

- As also stated above the SPF has supported calls for a form of National Infrastructure Agency to co-ordinate and deliver key infrastructure that will enable development to come forward. Attracting outside investment is going to be key to sustaining the property sector going forward. We advocate the closer alignment of private capital and government to deliver infrastructure, although, this will require a culture change in planning authorities in order to succeed.

- We believe that Scotland could achieve a much more efficient and integrated property market data system to underpin property-based taxation. Currently the Scottish Assessors produce valuations on the NDR valuation roll, which will move to a three-yearly system. A separate transactions-based database of LBTT and ADS returns is retained by Revenue Scotland, including lease transactions. Indeed, Revenue Scotland are also responsible for enforcing three-yearly LBTT commercial leases reassessments by taxpayers. The retention of separate authorities to collect similar commercial rental

information feels to us to be a missed opportunity for Scotland to find efficiencies in its taxation assessment and collection processes.

- Governments at all levels will also need to adapt their approaches to raising tax revenue. We should anticipate a need for less focus on property-based taxation. Business rates are an obvious candidate for review, but also transaction-based taxes should be reconsidered. Inevitably, if we see reduced use and demand for commercial property then this will have an impact on its value, which in turn will have an effect on its rateable value.

## Evaluation

1 Was this views submission tool easy to use?

Not Answered

Why did you feel it was, or was not, easy to use?:

2 Do you think this Call for Views submission tool provides a good way for you to get involved in the work of Parliament?

Not Answered

Please explain the reasons for your answer?: