THE RESOURCE SPENDING REVIEW FRAMEWORK

A RESPONSE BY THE SCOTTISH PROPERTY FEDERATION

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THE RESOURCE SPENDING REVIEW: CALL FOR VIEWS BY THE FINANCE AND ADMINISTRATION COMMITTEE

Background

The Resource Spending Review Framework was published alongside the draft Scottish Budget on 9 December 2021. It builds on the Capital Spending Review announced earlier in the year by the Scottish Government.

The Scottish Government has opened a public consultation on the Framework for the Resource Spending Review which will close on 27 March 2022. The government intends to publish its full Spending Review on 31 May 2022.

This consultation is a short, focused review by the Finance and Administration Committee of the Scottish Parliament to be returned via the consultation portal by close of business, 21 January 2022.

INTRODUCTION

Information about your organisation

The Scottish Property Federation (SPF) is the voice for the real estate industry in Scotland. We include among our members: property investors, including major institutional pension and life funds; developers; landlords of commercial and residential property; and professional property consultants and advisers. Our members build Scotland's workplaces, homes, shops, schools and other facilities and the infrastructure that serves them. Our industry is therefore central to the Scottish economy.

QUESTIONS 1-7 ARE FORMAL RESPONSES REQUIRED FOR NAME, ORGANISATION ETC

QUESTION 8 How clearly does the framework set out the Scottish Government's priorities for the resource spending review?

We welcome the intention to develop a system of multi-year spending plans by the Scottish Government. The framework proposed is clear in terms of the high level priorities that drive its policy proposals. These include child poverty, climate change and economic transformation. Our industry membership is best placed to comment on aspects of climate change and economic transformation. The framework is less clear in its description of the relationship with UK budget processes and influence. It is also clear that the allocation and delivery of Scottish Government resource spending is subject to a very fragmented collection of initiatives and agencies of government in Scotland itself.

QUESTION 9 What should be the overarching priorities in the resource spending review and how adequately are these currently covered in the framework?

The priorities should be to resource government spending commitments to support recovery from the pandemic and to meet the challenges of transition to a net zero economy. Without recovery from the pandemic then even if ongoing vaccination measures succeed in reducing direct pressures on the critical public services, the government is nonetheless faced with the challenge of rejuvenating the economy. This will be essential to support revenues to invest in repairing public sector capacities and building resilience for future public or economic emergencies (i.e. the financial crisis). For these reasons, we place economic recovery as an overarching priority for the resource spending review and we believe resources should be directed towards areas of government dedicated to supporting economic development. Our second overarching priority is to begin to tackle the enormous challenge of decarbonising our built environment and wider economy, while providing a just transition to a net zero carbon emissions economy. The cost of this challenge is now beginning to materialise for the public sector, businesses, and individuals alike, yet there is no substantive explanation of how the public sector will be supported to play its part to meet these challenges, other than stating that they will be met.

QUESTION 10 Does the framework properly reflect the current economic and political context?

No, we do not believe the framework fully accounts for lower Scottish Income Tax revenues, partly because of relatively fewer people being in employment, or of the lack of economic growth supporting buoyancy in non-domestic rates income.

The Committee has covered the issue of income tax revenue at length in its own Budget report. Non-domestic rates (NDR) revenue however is also a key component of future revenue and resource. For example, the Scottish Budget proposed on 9 December does identify future revenue expectations from NDR and estimates a significant increase in these rates without specifying how this increase in revenue is to be realised. In 2022-23 a NDR pool of £2.8bn is expected. From 1 April this jumps to £3.2bn and remains close to this level for the period of the three year revaluation period. In 2026 following the next revaluation, NDR revenue is expected to grow again to £3.5bn. This implies an expectation of rateable valuation uplifts for commercial properties which may not materialise as the economy adapts to the post-Covid era, particularly if there is a reduction in the number of NDR producing commercial properties as buildings are changed to alternative uses.

An element of the increase will flow from the end of relief for retail, leisure, and hospitality from July of this year, and from 1 April 2023 empty property rates relief policy is to be transferred to local authority control. In June 2021, the cost of this relief was estimated at £75m by the Scottish Government (NDR Relief statistics October 2021). This figure may be skewed by the wide-ranging 100% relief made available to Retail, Hospitality, Leisure, and

Aviation subjects in response to the pandemic. However, we fail to see how the growth in revenue is supported by economic growth and revaluation. There is therefore a risk of a significant shortfall in revenue expectations and there may be two further factors that will enhance this risk.

First there is the well documented change in consumer behaviour and the nature of our major high streets and retail centres. On paper, retail still accounts for nearly a quarter of rateable value. The reality is that this was changing before the 2017 revaluation and the pandemic has accelerated the change in appetite for retail bricks and mortar locations. With the growth of online retail, it is unlikely that the retail sector will support a similar scale of contribution to non-domestic rates distributable income. Neither is it apparent that the framework supports an effective recovery or renewal of our towns and city centres. There is also a change in demand for support. Areas with formerly strong economic performance have experienced a sudden and dramatic loss of footfall and economic activity that may not be entirely repaired. For example, central Edinburgh locations are estimated to have seen a fall in economic activity of 45% whereas outlying towns have in some cases not seen a reduction in activity, or even a slight increase over the period. Bathgate for example experienced a 4.3% increase over the pandemic (FT How the UK High Street was hit by the pandemic: look up your area: 19 January 2022).

The loss of economic productivity and tax revenue associated with these falls in activity in our most economically important city centres should be a key concern for the government's revenue expectations. The previously robust areas of Glasgow and Edinburgh have been hobbled by the pandemic and may take some time to recover. While some of the previously weaker performing areas may well have done better relatively speaking, their success is unlikely to make up for the loss of economic activity in the core cities.

(NDR revenue figures used are sourced from Scottish Budget 2022-23: 9 December 2021)

QUESTION 11 How does the framework approach cross-cutting issues, long-term challenges such as demographic trends, and preventative approaches?

In relation to the built environment the framework concentrates on the challenges of meeting the net zero carbon emissions challenges. Yet as stated in our reply to Question 9, there is little discussion of exactly how the framework will be aligned to deliver on the carbon challenge.

The framework provides strong evidence of the increase in costs to be expected in terms of an aging population, and the consequence of a lower tax base with a lower proportion of the population in work. The costs to be associated with these trends are possibly greater than those considered by the framework. Higher costs of living will add to already tight labour market costs to put upwards pressure on public sector wages, which will add to resource pressures. Construction related costs for materials are also increasing at an extremely high rate of 23% according to a report by the Construction Products Association in November 2021. This will inflate the cost of supporting additional healthcare facilities and other key social infrastructure required to address these growing demographic needs.

The framework also does not address an ever-growing resource 'timebomb' in the form of huge annual increases in revenue support for public pension obligations. This is not a new challenge and has clearly been an issue for some time – but it will only grow as a burden on the annual revenue resource. The Scottish Budget for 2021-22 identified an expected budget increase from £5.88bn in 2021-22 to £6.5bn in 2022-23 for the Scottish Public Pensions Agency (SPPA). This will be of no surprise to the SPPA who have seen an increase of 13% in the number of active pensions joining their pension schemes, and a 29% increase in the number of people within their schemes, over the past four years alone (p.11, SPPA Annual Business Plan, 2021-22). In total, the SPPA now covers 569,000 active, deferred or people drawing their pensions in Scotland. It is hard to see how these major cost obligations will continue to be met and at the same time meet all other spending plans and intentions, with an economy that is demonstrating little economic growth.

The framework is surely a final opportunity to address this ongoing and rapidly escalating challenge. The government needs to consider how it meets its growing public sector pension obligations before they become too great a burden on annual resource allocations. The government could consider the example of local government, where local authorities have established professionally managed pension funds that support their employee obligations, through putting pension contributions to beneficial use and earning returns that support the fund and public pension holders in the long term. This is not a comment on the terms and conditions of public pensions - we would not wish to do so – and we would expect the government to meet its obligations. Yet it is clear from the annual Scottish Budget papers that the increase in demand on resource spending year on year, is only likely to lead to even more difficulty for the Scottish budget to meet its objectives in the years ahead. The government needs to find a better way to support future public pension obligations.

QUESTION 12 How well do the priorities in the framework link in with National Performance Framework outcomes?

The priorities refer to a small number of NPF outcomes, yet there is little information that would explain how resource revenue spending will support the achievement of these outcomes. We are also concerned that the revenue allocations to business support appear to be insufficient at a time of clear need for business recovery.

In 2019 the Scottish Parliament approved a major series of reforms to the planning system. This new legislation applies a considerable number of requirements and obligations on local planning authorities. These measures will need to be funded by local government, yet it not clear if there any additional funding to deliver these additional planning system requirements has been made in the framework. With local government resource budgets themselves tightly squeezed, we fear the planning reform envisaged by Parliament will be difficult to achieve.

The planning system must be able to facilitate and enable development (and redevelopment) if the National Performance Framework outcomes for new sustainable homes and business locations are to be realised. Our members have consistently stated they would be prepared to pay higher planning fees to support additional resources for the planning authorities, but there must an improvement in performance as well.