



SCOTTISH BUDGET 2023-24

A RESPONSE BY THE SCOTTISH PROPERTY FEDERATION

PREPARED AND SUBMITTED BY

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SUBMISSION TO SCOTTISH PARLIAMENT'S FINANCE & PUBLIC ADMINISTRATION COMMITTEE ON SCOTTISH BUDGET 2023-24 (PRE-BUDGET SCRUTINY)

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.

1. THE SCOTTISH GOVERNMENT'S RESOURCE SPENDING REVIEW ASSUMES THAT THE CURRENT TAXATION POLICIES ARE MAINTAINED WHILE FUNDING FOR HEALTH AND SOCIAL CARE AND SOCIAL SECURITY IS PRIORITISED. ARE THESE THE RIGHT PRIORITIES AND APPROACH FOR THE SCOTTISH BUDGET 2023-24 AND UNTIL 2026-27?

The Resource Spending Review was produced before Geopolitical events and pre-existing economic and energy supply side challenges emerged to their current extent. The combination of persistent high inflation and low economic growth or 'stagflation' suggests the tax revenue assumptions could well be under threat. The Non-Domestic Rates Revaluation may further complicate this situation. The impact of the recession and lack of demand in certain sectors of the commercial property market (retail, older offices) could drag down rateable values. While we would expect to see an increase in rateable values for some sectors of the market, such as new, ESG (Environmental, socially responsible, Governance) compliant Grade A offices in Edinburgh and Glasgow, it is not clear that this will compensate for a generally weaker market picture in other areas of the economy

2. THE SCOTTISH FISCAL COMMISSION (SFC) NOTES THAT SCOTTISH INCOME TAXES HAVE GROWN MORE SLOWLY THAN THE REST OF THE UK AND IS FORECASTING SCOTTISH TAXES TO BE AROUND £360 MILLION LESS IN 2023-24 THAN THEY WOULD BE WITHOUT INCOME TAX DEVOLUTION. THE SFC IS ALSO FORECASTING THAT, AS A RESULT OF FORECAST ERROR, THE SCOTTISH BUDGET IN 2023-24 COULD BE £221 MILLION LOWER. HOW SHOULD THE SCOTTISH GOVERNMENT'S BUDGET 2023-24 RESPOND TO THIS CHALLENGE?

The poor performance of income tax receipts is a reflection of wider economic stagnation. Added to this is the loss of employees reported across the UK (over one million) which will further undermine the income tax receipts. There must be an economic growth strategy to inject new, sustainable, government revenue, without which its policy objectives are unlikely to be achieved. In our sector this will mean removing barriers to investment such as lengthy and uncertain planning processes, caused by planning resource concerns. It will also mean removing unnecessary obstacles to the reuse and rejuvenation of our town centres (for example vacant rates on properties that cannot be let and need to be regenerated). Where buildings fall into administration then nobody benefits resource wise because there are no rates.

3. HOW SHOULD THE SCOTTISH GOVERNMENT RESPOND TO INFLATIONARY PRESSURES AND THE COST OF LIVING CRISIS IN ITS BUDGET 2023-24?

The Scottish Government will need to work closely with the UK government and other devolved administrations to manage these challenges. The government should also consider carefully before going through with regulatory demands on the wider public sector (or private sector). It is clear from the Spending Review that local government resources in particular are under pressure and are not expected to keep in line with even previous costs forecasts. To add further regulatory burdens would therefore appear to be anathema in these circumstances of revenue squeeze and little if any economic growth. There should be a suspension of costly new administrative burdens applied from central government therefore until we see the resumption of sustainable growth in the Scottish economy. There is a related threat to the resources allocated to capital expenditure by the Scottish government and other public sector bodies. Construction supply and labour costs have for some time been running ahead of the wider inflation figures that are themselves now at 10.1% (latest figure: August 2022). The consequence of construction inflation

will be that the government will get less for its capital budget than had been assumed. This could threaten flagship policies such as infrastructure and affordable housing delivery.

4. THE SPENDING REVIEW IDENTIFIES KEY AREAS OF REFORM OVER THE LIFETIME OF THE PARLIAMENT TO SUPPORT ITS PRIORITIES IN THE SPENDING REVIEW, INCLUDING DELIVERING EFFICIENCY SAVINGS ACROSS THE PUBLIC SECTOR. HOW SHOULD THE SCOTTISH GOVERNMENT APPROACH EACH OF THESE AREAS TO ACHIEVE EFFICIENCIES WHILE ALSO MAINTAINING EFFECTIVE PUBLIC SERVICES?

Digitalisation promises to support efficiencies and thereby help to alleviate demand on public resources. We suspect there is little room for maximising revenue although there are some areas where the public sector could potentially grow some revenue streams. For example, HM Land Registry earns some £4.2m per year of revenue through targeted commercial use of its property data services. The Registers of Scotland is by contrast less targeted and has a cost that is unrealistic for most data investors.

We do not perceive great short-term opportunities in the public estate. The government itself owns very little. There is however a significant amount of vacant land and property that is owned by various public sector bodies, particularly in local government. These assets might be used to raise receipts from private investors which could benefit wider public policy objectives, and at the same relieve the public sector of ongoing liabilities for vacant rates, maintenance, insurance and security of land or older buildings.

5. HOW EFFECTIVE DO YOU THINK THESE REFORMS WILL BE IN DELIVERING EFFICIENCY SAVINGS IN THE SCOTTISH BUDGET 2023-24, AND BEYOND? IF YOU HAVE ADDITIONAL OR ALTERNATIVE PRIORITIES FOR ACHIEVING EFFICIENCIES (FOR EXAMPLE WITHIN YOUR PUBLIC SECTOR AREA), PLEASE PROVIDE DETAILS.

We suspect very little immediate benefit. The processes are likely to take some time to deliver and therefore may have little direct benefit in the near future. This does not mean these reforms should not go ahead as they should have important long-term benefits for Scotland.

6. WHAT IMPACT WILL THE SPENDING REVIEW PRIORITIES HAVE ON THE DELIVERY OF NATIONAL OUTCOMES IN THE NATIONAL PERFORMANCE FRAMEWORK?

The long-term national outcomes of the National Performance Framework will struggle without positive economic growth to sustain their resource requirements.

7. HOW SHOULD THE SCOTTISH GOVERNMENT TARGET SPENDING IN ITS BUDGET TO ACHIEVE NET ZERO TARGETS?

The Scottish Government should seek to use its budget to leverage in private investment to meet the net zero challenge. This appears to have been done recently with the recent announcement of over £16m across a range of projects to support zero carbon heat projects. There is no doubt that further support and investment of this kind will be important if we are to leverage in further private investment to improve the built environment and deliver on net zero ambitions.

8. HOW HAS THE SCOTTISH GOVERNMENT REFLECTED ITS COMMITMENT TO FISCAL TRANSPARENCY IN THE SPENDING REVIEW AND HOW CAN IT BEST ENSURE THAT SPENDING IN THE BUDGET 2023-24 CAN BE PROPERLY IDENTIFIED AND TRACKED?

The Spending Review provides helpful top-level estimates of resource allocation but how this matches up to actual expenditure throughout the year may be better tracked through more frequent scrutiny by the Finance and Public Administration Committee, perhaps on a quarterly basis.