Finance Committee

The Scottish Fiscal Commission Bill

Submission from the Scottish Property Federation

Introduction

1. The Scottish Property Federation (SPF) is a voice for the property industry in Scotland. We include among our members; property investors including major institutional investors, lenders, developers, landlords of commercial and residential property, and professional property consultants and advisers.

2. The Scottish Parliament’s fiscal powers are growing and the requirement for scrutiny of Scottish Ministers’ decisions on taxation and other fiscal matters is increasingly important. The property industry is at the forefront of industries directly affected by the new powers and we are keen to see effective scrutiny of the consequences of the government’s tax forecasting and its consequent decision-making. In fact two of the current taxes considered by the non-statutory SFC relate to the property sector, being LBTT and non-domestic rates which is a tax based on commercial property rental values as assessed on the valuation roll and these are of course core determinants listed under the Bill as functions for the SFC.

3. Our desire to see an effective and robust taxation scrutiny process is not confined to direct industry considerations. With powers being devolved on income tax it is important for the economic competitiveness of Scotland that effective tax and finance scrutiny of Scottish Ministers’ decisions is assured for the parliament and the wider public. We do not agree that this is assured merely by commenting on the ‘reasonableness’ of Scottish Government forecasting which appears to be suggested by the current draft of the Scottish Fiscal Commission Bill (s2). In our view, the Bill has too narrow a view of the role of the SFC. We argue below therefore that the SFC should be able to produce its own forecasts.

4. We encourage the Finance Committee to consider the potential role of the SFC in a wider sense of the Scottish Government’s new fiscal powers. The government is now able to raise capital via issuing bonds (within certain limits). While this is currently restrained within certain limits set by the UK Parliament it is nonetheless a development that will bring the Scottish Government into contacts with the financial markets if used. This process will bring greater scrutiny of the Scottish Government’s fiscal policy and credentials in a similar manner to that of the UK and other bond-issuing governments as the market prices the bonds that may be raised by the Scottish Government. In this light the potential for the SFC’s role is
significant and important if it is to properly inform parliament and public about the efficacy of future Scottish Government tax forecasts. It could be that this wider view of fiscal factors relevant to the increasing powers of the Scottish Parliament of the SFC might be delivered via s2(3).

**Forecasting tax revenues**

5. We believe that the SFC should have the freedom to produce independent forecasts. This would be in line with the Office for Budget Responsibility. It would be strange in a sense if the OBR could not produce its own forecasts — after all, the SFC will need to be developing its own assessments in order to compare Scottish Government forecasts and associated assumptions on market developments.

6. The Committee has previously noted that it is important that the SFC is perceived to be independent of the Scottish Government. This could be difficult to achieve without a means of producing and publishing its own independent forecasts. If it is only able to verify Scottish Ministers’ assessments then it may be difficult to convince the wider world that it is truly an independent body. It follows that SFC will need to develop some internal analytical capability in order to facilitate its own forecasts.

7. We believe that the SFC needs to develop credibility and must become respected as an arm’s length body that can take a genuinely independent view of major areas of taxation including business rates, LBTT and in time, income tax. We expand on our concerns about the current process for forecasting taxes in our comments in paragraph 9.

**Role of the SFC prior to the publication of the Scottish Government forecasts**

8. In the event that the SFC is so empowered, it is important that Ministers are able to consider any SFC forecasts ahead of the publication of their own forecasts. Parliament will wish to hear from Ministers directly what their view is of the SFC’s forecasts and therefore it is only right that Ministers should have the chance to consider SFC forecasts in advance.

9. We would hope that the SFC will influence and advise the development of Scottish Government forecasting from the basis of its independence and expertise. We wish to see the forecasting process develop and improve. We believe this will be aided by the government and the SFC learning from each other’s assumptions and modelling. In particular and in line with our comments to the earlier Scottish Government consultation of this year, we are keen to see more sophisticated tax forecasting that will take into account potential behavioural changes in the property markets as a consequence of changes to LBTT rates and thresholds in particular. For example, although the decision over
rates and thresholds is of course a political decision to make, we feel that an independent forecast of the consequences of higher rates on pricing, transactions and consequent revenue would have helped with current LBTT forecasts, particularly for the higher value residential market.

10. Although we have data only for the first six months of year of LBTT it is apparent that there is a significant difference in the returns for commercial and residential property under LBTT. While commercial revenue appears to be broadly in line with expectations, residential revenue is significantly below the required trend to achieve the tax forecast of £235mn set by the Scottish Government.

11. On NDRI (business rates) we suggest that there is a significant role for the SFC to play in verifying Scottish Government forecasts that will be aligned to the forthcoming revaluation (to take effect 1 April 2017). We welcome strongly therefore the inclusion of this as a specific part of the Bill (s2(2a)). There has not been a revaluation for seven years, dating back to the height of the previous property market. Our members suggest there has been significant polarisation of the commercial property markets since this time and this will have a potentially significant influence on the distribution and forecast of future NDR poundage rate and subsequent NDR revenues. NDRI will remain the second highest source of revenue for the Scottish Government after the transfer of income tax powers, beginning next April with SRIT) and therefore it is important that it forms a core part of the SFCs considerations.

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