



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# LOCAL GOVERNMENT AND REGENERATION COMMITTEE

Wednesday 16 May 2012

Session 4

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**LOCAL GOVERNMENT AND REGENERATION COMMITTEE**  
**12<sup>th</sup> Meeting 2012, Session 4**

**CONVENER**

\*Joe FitzPatrick (Dundee City West) (SNP)

**DEPUTY CONVENER**

\*Kevin Stewart (Aberdeen Central) (SNP)

**COMMITTEE MEMBERS**

\*James Dornan (Glasgow Cathcart) (SNP)

\*Anne McTaggart (Glasgow) (Lab)

\*Margaret Mitchell (Central Scotland) (Con)

\*John Pentland (Motherwell and Wishaw) (Lab)

\*David Torrance (Kirkcaldy) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Jim Hayton (Association of Local Authority Chief Housing Officers)

Kristen Hubert (Shelter Scotland)

Anita Jamieson (Shetland Islands Council)

Joann Johnson (Shetland Tenants Forum)

Sarah-Jane Laing (Scottish Land & Estates)

David Melhuish (Scottish Property Federation)

**CLERK TO THE COMMITTEE**

Eugene Windsor

**LOCATION**

Committee Room 6



**Scottish Parliament**  
**Local Government and  
 Regeneration Committee**

*Wednesday 16 May 2012*

[The Convener *opened the meeting at 09:32*]

**Decision on Taking Business in  
 Private**

**The Convener (Joe FitzPatrick):** Good morning and welcome to the Local Government and Regeneration Committee's 12th meeting in 2012. As usual, I ask everyone to ensure that mobile phones are switched off and that any electronic devices are on silent or in aeroplane mode.

Our first item of business is a decision on whether to take agenda item 3 in private. Do members agree to do so?

**Members** *indicated agreement.*

**Local Government Finance  
 (Unoccupied Properties etc)  
 (Scotland) Bill: Stage 1**

09:33

**The Convener:** We move on to agenda item 2. Margaret Mitchell has a declaration of interests.

**Margaret Mitchell (Central Scotland) (Con):** I declare ownership of 1 per cent of the issued share capital in Fairfield Properties Ltd.

**The Convener:** Agenda item 2 is oral evidence as part of our stage 1 consideration of the Local Government Finance (Unoccupied Properties etc) (Scotland) Bill. We have three panels of witnesses. I welcome our first panel. They are Jim Hayton, who is policy officer with the Association of Local Authority Chief Housing Officers, and Kristen Hubert from Shelter Scotland, who is co-ordinator of the empty homes partnership. Thank you for coming.

Will you give an outline of the reasons why properties are empty in Scotland, and of the difficulties that local authorities face in trying to help owners to bring properties back on to the market and back into use?

**Kristen Hubert (Shelter Scotland):** We work with councils to help them to develop processes to bring private sector empty homes back into use. Homes can be empty for many reasons, but it is not usually because of an issue with the property—generally, it is because the owner has got stuck somewhere. They might have an issue with making the best economic use of the property, have a fear of becoming a landlord, not have sufficient money to renovate it, or need information about how to rent or sell the property in its current condition.

The challenges that councils face are to do with working with owners to get through those issues. One challenge is often to do with staff resources. Another is about giving owners the incentive to bring properties back into use. We work with councils to develop a process that starts with advice and information. We then work with councils to develop incentives, loans and grants to encourage owners to bring property back into use for affordable housing. In the worst cases, enforcement is an option. We see the powers that the bill will give councils as being part of that process. The bill is not a stand-alone measure, but is part of a wider approach to bringing empty homes back into use.

**Jim Hayton (Association of Local Authority Chief Housing Officers):** Local authority chief housing officers rely quite a lot on the empty homes partnership and its research and

information. I agree with most of what Kristen Hubert said. One obvious reason why homes are empty is to do with the current economic circumstances; developers might have new-build property that they are unable to sell, or people might have inherited property and be unsure what to do with it. As the market has flattened, people have found it difficult to sell property. There are also individuals who own property but who just have difficulty understanding the options and how they might bring the property back into productive use. There are a myriad of reasons why property might be empty.

**The Convener:** Kristen Hubert said that the proposed legislation might be helpful. Do you agree?

**Jim Hayton:** Yes. As we said in our written evidence, the bill gives a discretionary power, but it is a helpful tool in the toolbox for local authorities and not primarily because they will be able to raise extra income from empty properties. The bill will give us a lever to try to engage with owners who might, as Kristen Hubert said, be stuck and be uncertain about what to do. Authorities are getting better at giving advice and information to point owners in the right direction and to signpost them to possible solutions. That might mean properties being managed by letting agents on behalf of owners who do not want to get into the bureaucracy and the minutiae of letting.

We welcome the bill for those reasons, but most of all we welcome it because of the huge and pressing problems of housing need. Public and private resources are in short supply for new affordable housing. We should welcome anything that can be done to augment the supply by using the resource of empty properties—some people estimate that there are as many as 25,000 of them—to get people who need homes into decent homes.

**Anne McTaggart (Glasgow) (Lab):** You have both spoken about ways in which the bill will assist. Will you share with us some of the ways in which the Scottish Government and local authorities could support owners of empty properties to bring them back into use?

**Kristen Hubert:** We work with councils to develop a number of ways to do that. As Jim Hayton said, the bill will provide a revenue stream, but we hope that councils will plough some of that revenue back into empty homes work, by recycling it back into advice and information for home owners who need signposting and information on how to rent or sell.

Councils should also consider recycling some money through incentives. For example, South Ayrshire Council has a recyclable loan fund for empty homes. The council gives home owners a

certain amount of money to bring their home back into use, but they need to give nomination rights to the council for X years; the council gives an incentive, but it gets something back through housing supply. There are different models of incentives, so it does not have to be exactly that approach. There can be grants or different models of loans.

We are also developing match-making schemes such as the homes again project in the south and east of Scotland, which is about trying to match people who want to sell with people who want to buy. There are various creative solutions. For the worst cases enforcement is available, which councils would consider as a very last step. The levy is a punitive measure, but it gives a flavour of the true cost of empty homes to the community at the same time as it provides a financial incentive for the owners to do something with their properties sooner than they otherwise would. It also provides a revenue stream to the council that it can recycle into the wider approach to helping owners before they get to the point of being charged a levy.

**Jim Hayton:** Local authorities are getting better at understanding the empty homes problem and the reasons why homes are empty. That understanding is critical to their taking effective action. They are also getting better at developing empty homes strategies. The local authority that Kristen Hubert mentioned, South Ayrshire Council, has an excellent empty homes strategy, which I read the other day. Some local authorities have specifically designated empty homes officers whose role is to identify empty homes and the people who own them so that we can engage with those people and explain the options and resources that may be available to help to bring the homes back into use.

Resources are critical—not specifically large resources to enable authorities to provide grants or whatever, but resources to facilitate things such as the revolving loan funds that Kristen Hubert mentioned. It may be possible to give owners interest-free loans to enable them to carry out essential repairs in order to get homes back into use. As you would expect, we speak regularly to Scottish Government officials. I was pleased to hear recently that there are proposals for a budget to be established that authorities can avail themselves of and use for the purposes that I have just described.

**Margaret Mitchell:** Good morning. Can you expand a little on the issues surrounding the use of enforcement powers—the new powers, in particular—and the barriers that might exist to local authorities using those powers? You have both highlighted potential barriers.

**Kristen Hubert:** Are you referring to the powers in the bill?

**Margaret Mitchell:** Yes—I mean the new powers.

**Kristen Hubert:** There is a potential cost in identifying where people have started to declare their property as a second home instead of a long-term vacant home. This will be the first time that councils have had the power to tax different classes of home differently, so there is a risk that people will record their properties erroneously, which will lead to increased enforcement costs. We believe that, if enforcement is part of a wider approach and if staff resources—ideally, an empty homes officer—are allocated to keeping an empty homes database and updating it as owners are contacted and worked with to try to bring property back into use, the enforcement costs should be lower because councils will have a better idea of what is out there and of the status of the empty homes in their communities. That is slightly different from a council officer simply having a spreadsheet and seeing numbers moving. We think that that should help.

**Jim Hayton:** As we say in ALACHO's written submission, one of the barriers to enforcement that colleagues have identified is that most directors of housing are not directly responsible for collecting council tax. The expertise in the information technology and the systems tends to reside within the benefits and revenues and IT staff.

Another barrier that finance staff have identified is the fact that the penalty of £50 that could be levied would frequently not cover the cost of trying to pursue enforcement. The penalty for withholding information or providing erroneous information can be up to £200. Like Kristen Hubert, I hope that that would be a very last resort and rarely used, but at least it would make it more economically viable to pursue cases in which people are minded to try to circumvent the legislation.

**Margaret Mitchell:** Glasgow City Council has expressed concerns that the costs of enforcement might outweigh any additional revenue. In addition to the increase to £200 of the fine for non-notification, which you welcome, do you think that the new powers will be useful to local authorities?

09:45

**Jim Hayton:** Yes. The feedback that I have heard suggests that they will be helpful.

One of the things that we welcome about the proposals is their flexibility. They allow councils to make decisions about the problems that they face. Some problems will be more significant in some

areas than in others, but the way in which the proposals are framed gives councils the discretion to decide whether the cost of implementing the legislation will merit the benefits that will come from it. That is to be welcomed.

**Margaret Mitchell:** That flexibility has been welcomed in all the submissions.

**Kristen Hubert:** I agree that it is to be welcomed; there is flexibility for the council to decide whether something makes sense financially.

In addition, some councils have come to us about the problems that empty homes are causing in communities, with neighbours feeling unsafe and communities being run down. If councils had that wider approach in place, with not only the levy but empty homes officers working with and trying to help the owners, it would add something to the mix because it brings a recognition of the costs and a revenue stream that can fund other helpful work.

**The Convener:** The cost of the levy might be in the region of £1,000. Is £200 a high enough fine for failure to provide information? Glasgow City Council has suggested that it is too low. Should it be higher in order to provide a real incentive to people to come forward with the information?

**Jim Hayton:** I do not have enough evidence from across Scotland to make a definitive judgment on that. I imagine that a council such as Glasgow would know the costs in some detail, and if it is saying that the fine is a bit low, I would reserve judgment on that. It is a fourfold increase in the current fine, so in that sense it is potentially significant.

**Kristen Hubert:** We have not taken a view on the level of fine.

**Kevin Stewart (Aberdeen Central) (SNP):** I have a question for Mr Hayton on ALACHO's position on the cost of implementation. Would it be possible for folk who are already in the housing service to become the guardians of the proposals, rather than appoint an empty homes officer?

**Jim Hayton:** Yes. As you will be well aware, there are people in councils that are going through efficiencies at the moment and sometimes people are being displaced. It is possible that the expertise to do that kind of work will be available in many councils—certainly in larger councils—and that it can be deployed within the council. There will be other councils that do not have that expertise. However, people in council departments other than housing, for example finance departments, could carry out that kind of work.

**Kevin Stewart:** I have a question for both witnesses about the current level of homelessness officer provision. In implementing the provisions, in

some local authorities there may be a case for reducing the number of homelessness staff and putting them on to this kind of work in order to reduce homelessness.

**Kristen Hubert:** I am not sure whether that would be a displacement because homelessness officers do other work. The councils that we work with have three full-time empty homes officers. In all the other councils, the job is wrapped up as part of other jobs—for example, the role of private sector housing officer or local housing strategy officer. That works well in some areas, but in others it would be a stretch for such officers to take hold of that. That is why if councils choose to charge the levy, we would like to see them recycle some of that money back into wider work, some of which could be to fund the staff to maintain the database and engage with owners. We would like councils who decide to go forward with the levy to take that wider approach.

**Kevin Stewart:** Which three councils are you working with?

**Kristen Hubert:** We are working not with three councils but with three full-time empty homes officers in Scotland. South Ayrshire has an empty homes officer and two are shared between Fife, West Lothian, East Lothian, Scottish Borders and Dumfries and Galloway, which has a renewal area—the homes again project.

**Kevin Stewart:** Thank you.

**Jim Hayton:** My view is that councils would be delighted if, as a consequence of empty homes work or any other work that they did, homelessness applications and the number of homeless people came down to the extent that it would free up officers to do other things. It would be an unqualified success if we arrived at that position.

**John Pentland (Motherwell and Wishaw) (Lab):** ALACHO's written submission says that you are disappointed that additional revenue raised will not be ring fenced. What are your views of the Scottish Government's proposal to allow local authorities discretion in how they spend the additional income that is raised from increased council tax charges for long-term empty properties?

**Jim Hayton:** As I recall it, the proposal in the original consultation suggested that any additional income raised from the new levy might be ring fenced for affordable housing purposes. As a housing professional representing housing professionals, I thought that that was a good idea. I fully understand, however, having worked for a local authority, the corporate nature of local authorities and I fully understand the position of the Convention of Scottish Local Authorities, which is that councils should be at liberty to spend

resources as they see fit. I would probably defer to that view, while continuing to use any influence that ALACHO might have to emphasise the benefits that can come from spending on affordable housing and the empty homes initiative and hoping that individual councils might make that choice.

However, at the end of the day, I am fully aware that the responsibility for disbursing resources should properly lie with local councils, so I do not have a huge issue with that. As I said, we will use what influence we have to persuade people of the merits and benefits of housing expenditure.

**Kristen Hubert:** My view is similar to Jim Hayton's. Obviously, we were in favour of the money being ring fenced for affordable housing initially, but we understand COSLA's position. As I said, however, we would like to see councils choosing to recycle some of the money for the wider empty homes approach.

**John Pentland:** The income that will be generated from the new power will be in the region of £15.5 million, according to the financial memorandum. Do you think that that is an overestimate or an underestimate? What impact would that level of resource have on helping to bring empty properties back into use?

**Kristen Hubert:** It is hard to say what the figure would be because it will depend on how many councils choose to use the power. I presume that the estimate is based on full enforcement, which will be difficult to achieve. However, if any money that is brought in from the levy is recycled back into wider empty homes work, it will have an impact. There are not many resources for empty homes work in Scotland. There is the recently announced £2 million national loan fund, which we are quite happy about. Besides that, it is up to councils to allocate their money to empty homes work. If they had the new stream, any money that was brought in could make a significant impact.

**Jim Hayton:** I broadly agree with Kristen Hubert. It is hard to estimate the sum at the moment, because of the nature of the proposed legislation and its discretionary element. As with any new policy, it will be important for us to monitor it early on. It would be great to identify the kind of areas where extra income is being raised and is being used to do good things, because those examples of good practice can be used to encourage others to do the same.

**The Convener:** Some people have suggested that the policy will unfairly penalise property owners. Has the Government got the balance correct? Should the Government be considering what mechanisms can be used to ensure that the system recognises when someone is genuinely trying to bring a property into use but is unable to



do so, in order to ensure that we do not penalise the wrong people?

**Kristen Hubert:** Part of getting the balance right involves the wider approach to empty homes. First, the power to charge the levy recognises that empty homes represent a cost to the community in relation to issues such as fly-tipping, overgrown gardens, police and fire call-outs and so on, as well as factors that are difficult to calculate, such as the loss of the money that would be spent locally if a family were living in the property and the drop in the value of neighbouring properties—the Empty Homes Agency has estimated that the value of a property that is near an obviously empty home can go down by 18 per cent. The current discount perhaps does not reflect those costs to the community.

If the levy is being charged as part of a wider approach to empty homes work, the owner should be given every chance to bring the property back into use. The proposal is that the levy will not be charged until the home has been empty for a year, so that gives an empty homes officer time to provide advice, information, signposting and incentives, if they are available, and to work through any problems that the owner has gotten stuck with.

We warn against having too many exemptions that are subjective, because that makes the system more expensive to enforce. We would like the balance to be on the other side, where someone who is in genuine hardship and is doing everything that they can to bring the property back into use is given incentives and financial help from the council, using money that has been recycled from the levy. That would be preferable to providing exemptions for this and that, which would be quite difficult to keep a handle on.

**Jim Hayton:** ALACHO believes that the Government has got the balance broadly right. There remain a number of what could be termed reasonable and humane exemptions—situations in which someone has died and there has not been a grant of confirmation yet, for example. Obviously, the legislation will be backed by regulations. ALACHO and others are working closely with Scottish Government officials to establish what those regulations might look like. My understanding is that they will be scrutinised by this committee, too.

It would be wrong if the measure were seen as a draconian instrument that serves only to take money from people. However, we are content that the balance is pretty much on advice and information. Looking in from the outside, it is hard to understand why someone might be simply sitting on a property from which they could generate a considerable income but, as Kristen Hubert said, sometimes people get stuck with a

property that they are unable to sell and are intimidated by the prospect of letting it, even though that could be a productive resource for them. If we and our partners can ensure that people have the information that will help them to get through that, that will help to demonstrate to the public that a balance has been struck in the interests of everyone, and that the measure is not just an attempt to raise extra revenue for local government.

**James Dornan (Glasgow Cathcart) (SNP):** What are your views on the Scottish Government's proposal for the mandatory exemption from any council tax increase for up to 12 months when the owners are proactively trying to sell a property at a reasonable price, if the council has evidence that that is the case?

10:00

**Kristen Hubert:** It is not clear to us from the policy memorandum what the council would use for that evidence. I think that the policy memorandum says something about the home report valuation and the property being on the market, but we need further clarity about what councils could use for that evidence. Obviously, it makes sense that something like that could result in an exemption, but one would have to be quite careful about what was used, as one could see all sorts of challenges coming up to that.

**Jim Hayton:** I broadly agree with Kristen Hubert. It could be difficult to establish precisely what the evidence might be to demonstrate that someone was proactively trying to sell a property. It is clear that the existence of a home report would be a prerequisite, and there could be adverts or perhaps even formal offers that had been received and refused. However, that will be for councils to work up. I am not sure whether that matter would be included in the regulations, but we would want to have a further look at it.

In principle, the suggestion that it would be unfair to penalise people who are genuinely trying to sell their home is reasonable. All of us know people who are trying to do that in the current market with little or no success. We should make the effort to establish criteria that would demonstrate that there was sufficient evidence that people were trying to sell their home before a 100 per cent levy was imposed, in the event that a council proposed to do that.

**James Dornan:** Can you think of any other mandatory exemptions that you would consider?

**Jim Hayton:** No. We considered that question just the other day, and the list that we have is reasonable enough to be going on with.

**Kristen Hubert:** I think that the existing list covers things. As we have said, we would not want to see additional subjective exemptions, as that can cause all sorts of enforcement issues.

**James Dornan:** The Government proposes to allow local authorities to offer a discretionary time-limited exemption from any additional council tax charge in two circumstances: where the council is satisfied that the owner is actively trying to let the property—that circumstance is pretty much the same as the one that we have just discussed—and where a registered social landlord has homes that are needed for use as temporary accommodation, but which are sometimes left empty for long periods because their use is linked to a demolition and new-build or reprovisioning programme.

**Jim Hayton:** Again, those are both reasonable provisions. The first involves someone having difficulty letting. It would probably be easy to assume that, in the current climate, it should not be too difficult to let in most parts of Scotland, but there will be areas and circumstances that make letting difficult. Again, the council, by effectively providing advice and information through an empty homes officer or whoever, might help. Perhaps it could signpost owners to reputable letting agents who might be able to do the job for them. As long as there is evidence that someone is actively trying to get their home back into productive use, we should accept that.

On the second circumstance, councils may be involved in regeneration schemes that are spread over a number of years from start to finish. It might not be unusual to take four or five years to regenerate an unpopular council housing estate, and a council might need to keep a stock of houses available for people as they move in and out of regeneration—perhaps while they wait for a new house to be built. Again, I do not think that the provision is an unreasonable one that ALACHO would not support.

**Kristen Hubert:** The Scottish empty homes partnership works purely on private sector empty homes, so I cannot comment on the second circumstance. The first potential exemption would have to be based on local circumstances. If there is a particular area in which it is felt that letting is more difficult, that could be looked at, but we caution that that could be quite subjective. It is quite difficult to see how one would evidence that there was advertising at the right price, for example. That approach could cost more for enforcement than it brings in. However, we are happy for that to be a decision for the local council.

**James Dornan:** Do you agree that the regulations should set a maximum charge that local authorities could make and that that should

be 100 per cent of the standard council tax rate for an occupied property?

**Kristen Hubert:** We are happy with the proposal as it stands.

**Jim Hayton:** Likewise.

**James Dornan:** Do you have any other comments on the detail of the regulations?

**Jim Hayton:** No. As I have said, work in that regard is still on-going. We are delighted to have been asked to work with Scottish Government officials to ensure that the regulations adequately support the primary legislation and give effect to the proposal.

**Kristen Hubert:** We have raised a couple of points in our written evidence. First, paragraph 40 of the policy memorandum talks about giving local authorities the power

“to offer an exemption, depending on whether or not they feel owners have strong grounds for being unable to bring their home back into use”.

It is not clear whether those are specific or broader exemptions, and I wonder whether that question might be raised with the minister. The other point that the committee might wish to consider relates to the definition of second homes and the potential for people to declare their properties as second homes rather than as vacant properties to avoid the charges.

**Kevin Stewart:** Mr Hayton, what are your views on the Scottish Government’s proposals to end the system of paying housing support grant to local authorities?

**Jim Hayton:** We mention the issue briefly in our submission. Although the policy memorandum gives reasonably convincing reasons for the move and although we broadly support it, we are concerned about the potential disadvantage that might be visited on the tenants of the only authority to receive the housing support grant—the committee will hear from representatives of Shetland Islands Council in a moment—and we think that the Government should think carefully about putting in place transitional arrangements to ensure that those tenants do not suffer unduly from its removal.

**The Convener:** Returning to Kristen Hubert’s point about second homes, I wonder whether including a reference in the bill to second homes would make things clearer and more straightforward and ensure that, where appropriate, councils could charge the extra amount.

**Kristen Hubert:** It would make things more straightforward. The use of the power should be at the council’s discretion, but we know of areas in

which such an approach would be favoured. It would certainly make the issue go away.

**The Convener:** Do you have any thoughts on the matter, Jim?

**Jim Hayton:** ALACHO has not specifically discussed the issue so, at this stage, all I can say is that we are content with the current proposal.

**Margaret Mitchell:** At the very beginning of the meeting, Kristen Hubert said that there are various reasons why houses or commercial properties might be left vacant. The bill will certainly help in situations where the owner is simply being wilful, but can you think of any examples in which it might be unhelpful and where you hope that the regulations will not make things worse?

**Kristen Hubert:** The policy memorandum details exemptions for vacancies arising from, for example, a death or someone going into care. I like to think that councils will use the power as part of a wider approach, including an officer who—

**Margaret Mitchell:** But are we talking about a total exemption or an exemption for only a period of time?

**Kristen Hubert:** As the policy memorandum makes clear, it will be for a period of time. We are content with those exemptions. It is hard to pinpoint specific examples but, in cases of genuine hardship, it will be better to have an officer who has a handle on the empty homes database, who is working with owners and who has a budget to help in such circumstances rather than a whole lot of small exemptions that might be quite difficult to manage.

**Jim Hayton:** I broadly agree with that. If councils were to adopt a fairly aggressive, draconian attitude to the legislation and impose it willy-nilly, they could catch people who are in genuine difficulties. I hope that that will not happen but, if it does, I suspect that elected representatives such as yourselves and local councillors will hear all about it and councils will be reminded to pay heed to the situation. However, I think that, the way it has been framed, the legislation provides enough discretion to ensure that, instead of being subject to burdens and financial costs, people who are not being wilful, who are in genuine hardship or who lack a genuine understanding of their options can be helped.

**Margaret Mitchell:** What effect will the economic downturn have on the ability for commercial properties to be let out? How long should such exemptions be?

**Jim Hayton:** I am reluctant to comment on the commercial side of things. However, as far as domestic properties are concerned, rarely a day passes when we look at a newspaper and do not

read that house prices are falling. People are finding it more difficult to sell or, indeed, even to get a mortgage to kick-start the market. Until we get an economic upturn, whenever that might be—and of course the sooner, the better—the situations and problems that people face in bringing their homes back into productive use will remain with us. It will be important for councils and others to be around to help and provide advice, not least because, as we have said elsewhere, tens of thousands of people need decent housing.

**Kristen Hubert:** We, too, cannot comment on the commercial aspect but we think it appropriate that, in the current climate, if people are finding that the way in which they are dealing with their properties is not working for them, the councils should provide advice and information. Indeed, we are working with them on establishing such a role and think that the bill can play a part.

**Margaret Mitchell:** I have a final, very quick question. Should councils publish a list of their own vacant properties—say, above libraries or whatever—to make it transparent who owns the property and why it is not being rented out?

**Jim Hayton:** I do not see why not. It is incumbent on councils as on everyone else to try to bring any vacant properties back into productive use.

**James Dornan:** I apologise if this question has already been answered, but will social landlords be affected by council tax increases on any long-term empty properties that they own?

**Jim Hayton:** Not to a huge extent. The legislation contains certain exemptions and I hope that, in the current climate and with—according to the Government's own estimates—156,000 people on waiting lists in Scotland, most social landlords will be minded to do everything in their power to ensure that they do not have properties lying empty for a year or more.

**Kristen Hubert:** As we deal with empty homes in the private sector, I cannot comment on that question.

**The Convener:** I thank the witnesses for their evidence and suspend the meeting briefly for a changeover of witnesses.

10:13

*Meeting suspended.*

10:15

*On resuming—*

**The Convener:** We move on to our second witness panel. The witnesses have come a fair distance, and I thank them for the efforts that they

have made. It is great to come to Edinburgh on such a sunny day, and I hope that they will, after the committee session, enjoy the rest of the day.

The witnesses are both from the Shetland Islands. Anita Jamieson is an executive manager for housing with Shetland Islands Council, and Joann Johnson is the chair of the Shetland Tenants Forum. You are very welcome, and I thank you for coming along to help with the committee's inquiry.

I will kick off the questions. Will you provide some background and thoughts on why Shetland Islands Council is reliant on the housing support grant, given that other councils have moved away from that support and on to different forms of funding?

**Anita Jamieson (Shetland Islands Council):** Thank you for inviting us to be here. The difference between the Shetland Islands Council's position and that of other local authorities is that the debt in Shetland is historical, and is a result of the oil industry's arrival in the 1970s. I was still in primary school at the time when there was a national drive to get the oil revenues, and to get the Sullom Voe terminal built and up and running in Shetland. The population increased by about 40 per cent in a very short space of time, and, over two decades, the council had to build 200 to 300 houses, incurring a debt of around £50 million.

Over the years there have been various promises that the debt would be commuted, but that has not happened. We went through an initial stock transfer process, which was based on writing off the debt, but we did not get past the valuation stage. At that time, some of the other local authorities that had very high per-unit debt were successful in going through the stock transfer process. That left us where we are today.

**Joann Johnson (Shetland Tenants Forum):** I do not have a lot to add to that, other than to say that, unlike Anita Jamieson, I was not at primary school at that time. I remember the houses being built—I live in one of the houses that was built in the oil era; it is only 4 miles from the Sullom Voe terminal, where I worked for seven and a half years when it was all going on. I remember the days of the oil invasion, and I really know how and why the houses came to be built.

**Kevin Stewart:** Did Anita Jamieson say that 200 to 300 houses were built in the 1970s?

**Anita Jamieson:** Yes.

**Kevin Stewart:** I will play devil's advocate. I come from Aberdeen, an area where there was also a lot of building because of the oil industry. Much of that was registered social landlord housing, but some council housing was also built. The financial memorandum estimates that if the

grant was removed, rent would increase by £3.04 a week on average over a three-year period. However, Shetland Tenant Forum's submission states that the increase would be £10 a week, and Shetland Islands Council says that it would be £8.13 a week. Why is there such a disparity in the numbers?

**Anita Jamieson:** The Shetland Islands Council figure is based on the 2012-13 housing support grant announcement of £765,000. I think that Shetland Tenant Forum's figure is probably based on the 2011-12 figure of more than £900,000. That explains the difference between those two figures.

**Kevin Stewart:** What about the £3.04 figure?

**Anita Jamieson:** I cannot tell you about that.

**Kevin Stewart:** Let us move on, because I do not want to bog you down in questions that you—

**The Convener:** Just before we move away from the difference between Shetland Tenants Forum's figure and the council's, can you tell us how you worked out your figures? We will ask the Government the same question.

**Anita Jamieson:** We took the amount—

**The Convener:** You do not need to do it now. Perhaps you could supply the information in writing. That would be helpful.

**Anita Jamieson:** Okay.

**Kevin Stewart:** Thank you, convener. I was going to ask for that, too.

Where are you with regard to achieving the Scottish housing quality standard?

**Anita Jamieson:** We estimate that about 85 per cent of the stock achieves the housing quality standard. We have an issue with energy efficiency. We are looking to address that, but we might have to seek exemptions on it.

**Kevin Stewart:** Do you not have advantages in energy, particularly with the district heating scheme in Lerwick?

**Anita Jamieson:** Our stock does not have a particular advantage. The district heating scheme is only in Lerwick, and only about half of the council's stock is in Lerwick. In total, about 5 per cent of our houses are linked to the district heating scheme.

**Kevin Stewart:** If exemptions were denied, what would be the cost of bringing the properties up to the energy standard in the Scottish housing quality standard? Do you have any idea?

**Anita Jamieson:** We have done quite a bit of work, as was highlighted in the Scottish Housing Regulator's follow-up report last summer. In a number of properties, we have replaced heating

systems and done additional insulation work, but we will be unable to meet the standard despite having made that level of investment, partly because we are not on mains gas and partly because of the climate. For those reasons, we will struggle to meet the quality standard for energy efficiency in many properties.

**Kevin Stewart:** Okay.

The information that we have on average rental prices shows that the average rent paid in Shetland is £61.04 per week. Is that correct?

**Anita Jamieson:** Yes.

**Kevin Stewart:** For your peer group of social landlords, the figure is £64.88 per week, which is about 6 per cent more than in Shetland. Would either of you like to comment on that?

**Anita Jamieson:** You mentioned the figure for social landlords, which includes housing association grant. We do not have direct access to a lot of information on RSL rent levels. In the 2011-12 figures for local authorities, Shetland had the second highest figure in Scotland, topped only by Edinburgh, and it was well above £4 a week greater than the Scottish average.

I think that our housing association rents are roughly equivalent for smaller properties and slightly more for others, but they have additional charges for factoring built in. When we strip those out, the figures are broadly similar.

**Kevin Stewart:** Okay. I think that we need to look at that in more depth, convener.

When does your housing business plan run to?

**Anita Jamieson:** It is still under development. It was started only in about September or October last year. That was the basis of the negotiations that we had with the Scottish Government up to February, as we tried to arrive at a transitional arrangement.

We are now developing the business plan into a full 30-year business plan that will include investment, with a view to having a three to five-year window in which we can consult tenants on rent and investment positions, and clarifying that we can have a financially sustainable housing revenue account. The biggest issue with that is the debt. It is seriously constraining our ability to look at an investment programme, and we are certainly unable to address unmet need.

**Kevin Stewart:** I will really play devil's advocate now. You have been asking for commutation of the debt for a long time. Colleagues of yours recently gave evidence to the Parliament's Finance Committee and described Shetland's large reserves. Under normal circumstances, it would be impossible for general funds to be used to deal with debt from the housing revenue

account, but what about the islands' oil fund? Is that treated in the same way as the general account or could it be used for that purpose?

**Anita Jamieson:** Following the Finance Committee meeting, James Gray, the executive manager for finance, submitted a detailed breakdown of the council's reserves, which set out where the reserves are committed and how they can be used. That information should be available to you.

**Kevin Stewart:** On the technical issue, the council would not be able to use the general account for that purpose, but do you know whether you could use the oil fund?

**Anita Jamieson:** I think that the answer to that is included in the information that James Gray submitted. There are restrictions on the use of various funds and there are existing commitments for a number of the funds, which are detailed in his paper.

**Kevin Stewart:** I reiterate that I am playing devil's advocate. We probably need to see that paper, convener.

**The Convener:** We will get a copy of any papers that go to the Finance Committee.

**Margaret Mitchell:** Given the complexity of some of the figures, I want to ensure that we are comparing apples with apples, rather than apples with oranges. For argument's sake, let us take the 6 per cent less that tenants in Shetland are deemed to be paying compared with the median rent across the rural social landlord peer group. Are you saying that there is no scope for an increase in rents in Shetland?

**Anita Jamieson:** There is little scope for a major increase. One of the difficulties is linked to the debt. A 1 per cent increase in interest rates costs the housing revenue account £450,000, which has to go directly on to rents. Shetland has a relatively low take-up of housing benefit—about 30 per cent of our tenants are in receipt of housing benefit. Therefore, rent increases directly affect most tenants; they are not all picked up through housing benefit. Those are the main issues with a major increase in rents.

**Margaret Mitchell:** Will you quantify what you mean by "major"? Can you give any indication, given the figures that we have been looking at?

**Anita Jamieson:** Anything beyond 5 per cent, which is the average inflation figure plus 2 per cent—the normal benchmark for rent increases—is likely to cause difficulties for tenants.

**Margaret Mitchell:** Your written submission states that you would welcome transitional arrangements to mitigate the costs of the removal of housing support grant. Can you give examples

of such arrangements and tell us what stage you are at in your discussions about that with the Scottish Government?

**Anita Jamieson:** The last meeting that we had was in early February. When we left that meeting, we were advised that we had supplied sufficient information on our housing revenue account to enable the officials to take a paper to the minister. Since then, we have heard nothing back. In some of our scenario planning, which is available—it was circulated with the papers—we considered an amount, phased over three to five years, that would make a difference to the overall debt to the extent that housing support grant would no longer be required. That would allow us to build back to having a self-sustaining housing revenue account, which is ideally where we want to be.

**Kevin Stewart:** You were talking about rent increases. It would be good for the committee to get an idea of rent increases in Shetland over the past few years.

10:30

**Anita Jamieson:** For a number of years, we were able to sustain an inflation-only increase. The most recent increase was inflation plus 0.5 per cent.

**Kevin Stewart:** Can you send us the figures for the past five or six years?

**Anita Jamieson:** Certainly.

**The Convener:** I ask Joann Johnson to come in on rent increases. Throughout the country, most councils will be implementing inflation plus 0.5 per cent or more. What were the thoughts of tenants about increases of more than inflation plus 2 per cent, as was suggested by Anita Jamieson?

**Joann Johnson:** The Shetland Tenants Forum is always involved with the council in discussions on rent increases. The issue is put out to all the associations, of which there are seven, and we usually have a meeting at which everybody comes together and discusses rent increases. We always say that we would like to try to keep rents to a minimum because we feel that if they go too high, everyone will be affected. If the rents have to go up—if the housing support grant is done away with—it will have a big impact on the tenants of Shetland.

**The Convener:** Tenants throughout Scotland say, "Please don't put the rents up." However, in every other council, budgets have to be set that allow the council to invest in housing stock only if it increases rents. An increase of inflation plus 0.5 per cent is low in comparison with the rest of Scotland, certainly from my experience of Dundee, Glasgow and Aberdeen.

**Kevin Stewart:** It is unusually low.

**The Convener:** It is unusually low. If you never put the rents up, you have not made an effort to get to the point at which you do not need housing support grant.

**Joann Johnson:** We have never really discussed that at a big level. The Tenants Forum side always says that we should try to keep rents to a minimum.

**Anita Jamieson:** In general, tenants recognise that they are paying a higher rent but feel that they are getting a quality service. We have discussed levels of investment going back to stock transfer days and beyond. It is quite difficult to gauge what tenants feel is an acceptable increase because they want the increase to be as minimal as possible and to continue to receive that service.

We have discussed whether investment should be reduced or frozen in order to minimise increases, and tenants were not in favour of that.

**Joann Johnson:** If you want, I could ask the seven associations.

**The Convener:** It is always useful to hear the views of tenants and user groups.

Anita Jamieson talked about a three to five-year transition. It would be useful to us to see how rent increases would look over that time.

**Anita Jamieson:** I think that that is in the business plan.

**The Convener:** I will need to have a proper look at that, then.

Obviously, nobody wants rents to go up but it might be acceptable if that were to happen as a transitional arrangement, rather than housing support grant being cut off completely all at once. I guess that although there has been a bit of a transition, because the level has been coming down year on year, from your point of view it feels like a big chop all of a sudden, and perhaps one that is too deep.

**Kevin Stewart:** The stock transfer proposals basically fell down at the first hurdle. What were the proposals for rent—or for rent increases—in the stock transfer proposals?

**Anita Jamieson:** The proposal was retail prices index plus 1 per cent.

**Kevin Stewart:** Proposals that I have seen from other councils have been RPI plus 2, 3 or 4 per cent. If RPI plus 2 or 3 per cent had been proposed, would the finances have stacked up?

**Anita Jamieson:** No. The difficulty was that our investment profile was inverse in comparison with a fundable investment profile. The condition of the stock meant that the front-end investment was

much lower. The rents were already high, and the debt was there. It just did not work—it was unfundable.

**The Convener:** Thank you. We have a lot to think about and will take a proper look at your business plan.

10:36

*Meeting suspended.*

10:41

*On resuming—*

**The Convener:** Our final panel comprises David Melhuish, director of the Scottish Property Federation, and Sarah-Jane Laing, head of policy at Scottish Land & Estates. I welcome you both to the committee.

I will kick off. Will you give some of the reasons why properties are empty long term and say what difficulties owners face in bringing them back into use?

**Sarah-Jane Laing (Scottish Land & Estates):** I will split my answer between the residential and commercial sides. Our members have been clear that commercial properties are empty entirely because of a lack of demand in rural areas. Our members are not willingly and deliberately leaving commercial properties empty.

The issue is much more complex for residential properties and has been for a number of years as we have tried to investigate why properties in rural areas are empty. Members will be aware that some houses in rural areas are right in the midst of farms and other working businesses and are not lettable. Other houses that are almost derelict and are at the end of tracks cannot be brought back into use—that would not be financially viable.

Some owners are awaiting planning permission to convert empty properties that form parts of stable blocks and other larger developments into tourism, education or business facilities. When buildings are listed, such planning applications take a considerable time, so those properties sit empty.

When we have discussed the issue with other landlord groups and stakeholders, we have heard that a number of single-property owners are reluctant to become landlords because they are slightly wary of the regulations. That does not impact on our members, who are already landlords, but that problem exists.

As I said, the locality of a lot of the properties in rural situations does not allow them to be brought back to a lettable standard.

**David Melhuish (Scottish Property Federation):** I agree. I will focus on the commercial side. Properties are empty because of the weakness in demand and the wider weakness in the economy. Some financial circumstances also make letting a property difficult. For example, some properties might require a lot of work to bring them back to a lettable standard.

Some of our members are residential landlords, and it would be odd for them not to rent out a property. The answer for many of the 23,000-odd empty homes that were referred to will lie in many people becoming unwilling landlords.

10:45

**John Pentland:** Do you therefore think that the bill's provisions and the proposed regulations will not encourage owners to bring their properties back into use?

**David Melhuish:** I will start with commercial properties, if I may. Rental business is the bread and butter of many of our members' businesses and existence, so they have a powerful incentive to let out their properties. In our view, it is because of the wider economy that many properties are empty. Owners of many empty commercial properties already pay 50 per cent of the rates as well as losing the rent. That is a powerful incentive for getting a property let and for returning it to productive use.

On the residential side, as the background papers point out, even with the withdrawal of discounts, the number of empty properties has gone up in the past few years. In many of those circumstances, the landlord will have a powerful incentive to get the property let and to have the rent paid. A small landlord will need that income to pay back their funder. They might already be paying a certain level of council tax, on top of the opportunity cost of not receiving rent. I echo many of the sentiments that have been expressed to the committee. Councils will have to look at individual cases and use the provisions very carefully indeed. However, we are pleased that, as a result of the consultation on the council tax side of things, the Government moved back from the original six-month benchmark to one of a year.

**Sarah-Jane Laing:** I agree with David Melhuish's comments about commercial properties. I think that what is proposed will be an undue penalty; it will not act as an incentive.

As has been said, the proposed council tax levy will be a powerful tool in the toolbox that will result in some properties being brought back into use, but I think that the positive steps that most local authorities are taking by offering advice and information and providing access to the loan fund will have more impact. That is why, with Shelter

and others, we are a member of the empty homes partnership. We think that the carrot approach is fine. A stick will always be a necessary aspect of any measure, but we will certainly achieve much more through positive working with home owners than we will through the introduction of the proposed levy.

**John Pentland:** Do you agree with the principle of giving Scottish ministers powers to make regulations that would give local authorities discretion to increase council tax charges for properties that have been empty for more than 12 months?

**Sarah-Jane Laing:** Yes. We agree with that in principle. We said in our submission that we are pleased that local authorities will have some flexibility and discretion with regard to how they exercise that ability.

**David Melhuish:** I agree. The bill is very much a framework. It is a question of how the subsequent regulations are used and implemented by local authorities.

**Anne McTaggart:** I would like you to think outside the box when you answer this question. In what other ways could the Scottish Government and local authorities support owners of empty properties to bring them back into use? In an ideal world, how could they do that? You might want to give your wish list.

**Sarah-Jane Laing:** Up until a few years ago, a powerful tool that was available was the rural empty properties grant, which our members made great use of throughout Scotland. More use was made of it by people in the north-east of Scotland than by people in the rest of Scotland put together because, at the time, there was a highly proactive Communities Scotland office up there, which looked at what stock was there and how best use could be made of the investment. In an ideal world, we would still have such a fund, but that is not a realistic proposition at this time.

I would like the loan fund to be rolled out across Scotland, rather than being available only in selected local authority areas. I would also like local authorities to be far more realistic about removing properties from the council tax register. There are properties that will never be brought back into use. Because they cannot be removed from the council tax register, they are listed as empty homes, with the result that it would appear that they could be brought back into use, whereas, in fact, that is completely unrealistic. I am talking about bothies up hills and properties that are derelict but which are in the midst of a farming business and are used to store bales and other things. They are not lettable properties and should be removed from the council tax register.

Advice and information—hand holding for a lot of single-property owners—is essential and is starting to happen. The misalignment between council tax and housing officers has been mentioned. Throughout Scotland, a lot of positive work on local housing strategy is being done with the housing guys, but similar work is possibly not being done with those who are responsible for the council tax register, whose focus—rightly—is on collecting the revenue from council tax. I would like to see a much more joined-up approach between the finance and housing departments to address that problem.

**David Melhuish:** I agree with Sarah-Jane Laing's comments, particularly on the homes side of things. Commercially, one of the drivers for the legislation has been concern about the state of our high streets and the number of vacancies that are appearing there. There will be a powerful role for the Government, local authorities and the private sector working together to consider how those properties could be used. A lot of them will not come back into retail uses because consumer habits and markets are changing. A view will have to be taken on alternative uses and on pulling together properties in the high streets for regenerative purposes.

**Anne McTaggart:** To what extent do you agree with the view that, if implemented, an increased council tax charge would unfairly penalise owners of empty properties and interfere with individuals' property rights?

**Sarah-Jane Laing:** Having spoken to our members, I know that the 12-month period for renovations is quite short in certain circumstances. However, there is flexibility for exemptions in cases in which the landlord is really trying to bring a property back into use. I would like to extend it slightly to address the planning issue that I mentioned earlier. If the measure is used for its intended purpose, I do not have a problem with that.

**David Melhuish:** On the council tax side of things, there is a great deal of subjectivity around whether someone is finding it hard to sell or let their properties, and it will be important for local authorities to look at individual cases. I endorse the comments about the range of work that is being carried out to inform owners of houses who never intended to be a landlord or a second home owner, which is what they will become in effect. The situation will have to be looked at very carefully, and there will inevitably be some instances of unfairness.

**Anne McTaggart:** My last question is on building again—it is outside the box. What is your opinion of the impact on the house-building sector of the increased council tax charges for long-term empty properties?



**Sarah-Jane Laing:** I have not really thought about the overall impact. Do you mean the impact on the construction industry, or are you talking about housing supply?

**Anne McTaggart:** I do not know whether I have said it properly. Hold on a wee second—I will read the question correctly this time. What impact do you think the increase in council tax charges for long-term empty properties—if implemented by a local authority—would have on the house-building sector? Is that any easier?

**Sarah-Jane Laing:** Yes. I do not think that the levy will have a huge impact on the house-building sector. It will still bring only a small number of properties back into use. We all know that the number of houses that Scotland currently requires to meet the housing need is massive, so the potential impact is negligible in terms of taking investment away from new build. If there is a drive to bring properties back into use, that will be beneficial to smaller building firms—the one-man bands—especially in some of our rural areas. It could help the smaller operators in the house-building sector.

**David Melhuish:** I think that the measure will exacerbate the pressures on house builders to respond quickly to the market. You have seen the response of the past four or five years—they will not build where there is a lack of consumer demand, which is what we have at the moment. House builders are acting innovatively by trying shared equity schemes and so on. Possibly the big concern in that circumstance is if they get hooked with a property when they have managed to sell one of their own developments but have done a part exchange. There are some concerns, but developers will be working very hard to get the properties off their books. There is no question but that they have been doing that. The increased council tax charges could exacerbate the problem if they get stuck with properties that they cannot sell or let.

**Margaret Mitchell:** Given your comments about the lack of a holistic approach, and sometimes the lack of a commonsense approach, from the various departments that deal with empty properties, what is your view of the provision in the bill whereby any additional income from increased council tax charges for long-term empty property can be used as the council sees fit?

**Sarah-Jane Laing:** Having previously worked in a local authority, I know that it is always hard to ring fence money. We are strongly of the opinion that any money that is raised through the additional levy has to be used for housing provision—preferably affordable housing provision—through a range of routes. I am not saying that it should have to be used for new council building or new RSL developments; it

could be used to support private landlords. We urge the Scottish Government to look at ways in which the money could be used solely for affordable housing purposes.

**David Melhuish:** From the evidence that we have seen in the sector, it appears that the additional revenue could be pretty marginal.

**James Dornan:** Given your previous responses, I take it that you support the Government's proposal for a mandatory exemption from a council tax increase for up to 12 months to apply to owners who are proactively trying to sell their house? Are any other mandatory exemptions required?

**Sarah-Jane Laing:** I mentioned planning. If the property is subject to a live planning application, that should certainly be ground for exemption. I am happy with the exemptions that are listed in the policy memorandum.

**David Melhuish:** The planning one that Sarah-Jane Laing mentioned is very important. We hope that local authorities will take a pragmatic view in circumstances involving things such as listed building consents and building warrants, where a regime is in place whereby people have to abide by the regulations.

**James Dornan:** If the situation is outwith people's control, the exemption should apply.

**David Melhuish:** Yes.

**Sarah-Jane Laing:** Yes.

**James Dornan:** The Government also proposes to allow local authorities to offer a discretionary time-limited exemption from any additional council tax charge in two circumstances: when the council is satisfied that the owner is actively trying to let their property and when an RSL has homes that are needed for use as temporary accommodation but are sometimes left empty while a re-provision programme is going on. Can I take it that you support those measures?

**Sarah-Jane Laing:** Yes.

**David Melhuish:** Yes.

**James Dornan:** Can you think of any other discretionary exemptions that would be required?

**Sarah-Jane Laing:** I have talked about properties that some of our members view as unlettable. That is an area of contention with some council tax staff. When we bring staff out and show them the property, they can see where it is, but it is very hard to understand the location of the property from a council tax register. It is also hard to frame an exemption that covers such circumstances. It comes back to the subjectivity of the local authority's decision. If a property is in the middle of a steading and it is incapable of being let

out, rather than there being an exemption, I would like it to be removed from the council tax register. That is one way of getting round the issue.

**James Dornan:** Are you saying that a dialogue currently takes place on individual properties but you would like a mechanism to be put in place?

**Sarah-Jane Laing:** Yes. A dialogue takes place, but in many cases it is not successful. We are looking to take that issue forward with the councils.

**James Dornan:** I have one last question. Do you agree that regulations should set a maximum charge that local authorities could make and that it should be 100 per cent of the standard council tax rate for an occupied property?

**Sarah-Jane Laing:** We are happy with the maximum being 100 per cent. We said in our submission that we would like to see a sliding scale, but we are happy with the levy.

**David Melhuish:** If there are going to be levies, there definitely needs to be a cap. I again urge that councils adopt a case-by-case approach and use their discretion, based on the individual circumstances of the properties.

**James Dornan:** But you are happy with the cap being at 100 per cent.

11:00

**David Melhuish:** Yes. I certainly would not want it to be any higher.

**James Dornan:** I thought that that was what you meant.

**David Torrance (Kirkcaldy) (SNP):** David Melhuish talked about lack of demand, the change of shopping habits and the empty commercial units on our high streets. We have seen that for a long time, especially in the area that I represent. Will the proposed measures help owners to invest in changes of use? The centre of our town has big retail units that have been derelict for years, even from before the recession. However, the east and the west ends of the town are successful because they have small business units that are all occupied by individuals. The problem for the centre seems to be a lack of investment. Will the proposed measures push or help owners to invest in such areas to change the use of properties and the whole outlook of the areas?

**David Melhuish:** In effect, what is proposed will increase rates liability by about 80 per cent. The question is whether it will help or whether it will tip the businesses into administration. That is the big question that you need to ask. In any case, whether they will be able to act will depend on their arrangements with the banks. They will need to discuss matters such as changes in use or

rental levels with their lenders, and the answer may not always be straightforward.

We understand the feeling that there needs to be a powerful stick to force owners and investors to get properties back into use. At the same time, though, you should not underestimate the incentive that they already have in that they are paying 50 per cent rates and losing rental income, and having to keep the bank manager happy at the same time. What is proposed may be an additional driver in some circumstances but, in many cases, it will not be a simple process, particularly where applications for changes for larger-scale units are needed. Owners may find their ability to act to be circumscribed in any case. I would not underestimate the possibility that businesses will be pushed into administration if the rates liability goes up.

**Kevin Stewart:** We have evidence from many places that some property owners would rather sit on empty properties. You said, as have others, that much of the empty property situation is down to lack of demand. Can you evidence that?

**David Melhuish:** Yes. For example, we can look at the sales of properties, for which transactions are now at the lowest point in the past six years. The figures are from Registers of Scotland, which tracks commercial as well as residential property transactions. The last quarter had the lowest volume of transactions for six years.

**Kevin Stewart:** Is that because people are sitting tight during these times?

**David Melhuish:** I think that it is a lack of demand in the wider economy.

**Kevin Stewart:** Are some folk sitting tight and waiting to see whether their investment will rise in value again?

**David Melhuish:** Values have fallen for offices and retail units by 35 per cent across the piece. There will be instances of people being trapped by that, as some are on the residential front because of negative equity. I would not say that people are deliberately sitting on empty properties as you suggest. There is a long way to go before people see values get back to where they were. I think that that dose of reality is part of the current market.

There is a lack of demand, but there are some areas of Scotland where that is not the case. One of those is an area that you are familiar with: Aberdeen. The circumstances are very different there.

**Kevin Stewart:** And a huge amount of space is available there that owners will not take decent prices for because they would rather sit tight. That is my point: there is demand for property in a huge

number of places, but some owners of the properties will not change the rental value one little bit and will sit tight.

**David Melhuish:** I disagree with the view that there is a huge demand for property all over the place. There is a demand for property in Aberdeen, and that has been reflected in the fact that rental levels have been changing in recent years. One of the reasons for that is the lack of appropriate supply. There may be vacant units, but they might not be of the kinds that are required by people looking for property.

**Kevin Stewart:** We could have this conversation for hours, but I do not intend to do that.

**Sarah-Jane Laing:** On the lack of demand, the example that I gave in our evidence was from rural Aberdeenshire. Many of our members will never realise the capital value of their investment. Having had discussions with members recently, I know that they have been letting to charities and others at way below the market rent just to ensure that the property is being used.

**Kevin Stewart:** The Federation of Small Businesses estimates that empty property relief from 2010 to 2015 will come to £769 million, which it compares to the £591 million that will be spent on the small business bonus scheme. It says that whether empty property rates relief is a block to or a driver of economic activity and whether it represents value for money should be investigated. It seems to think that it would be better for the economy if money were invested in the small business bonus scheme rather than the empty property rates relief scheme. Could you comment on that?

**David Melhuish:** I would not agree with that analysis. First, the policy has been in place in England for a number of years and has not had that beneficial effect. The Business Centre Association told the Finance Committee that the policy could be a negative influence on the development of business centres, which are very much at the forefront of encouraging small and medium-sized enterprises. Further, as I said before, the decision about whether to change rents might not always be up to the landlord—because that has a consequential impact on their financiers or lenders, any change might have to be agreed with them.

**Sarah-Jane Laing:** We support any measure that supports small businesses, so we are in favour of the Government investigating which of the options would have the most impact. We have not carried out a comparison between the impact on businesses of the two options, but we are more than happy to be involved in any exploration of that.

**Kevin Stewart:** Mr Melhuish mentioned the English experience. Is there any evidence from England to suggest how realistic the concerns might be? What can be done here to mitigate those concerns?

**David Melhuish:** Could you clarify what concerns you are talking about?

**Kevin Stewart:** You mentioned that, in England, there have been concerns about the changes. Can you tell us how realistic the concerns might be? What can be done here to mitigate the difficulties that have been faced in England, if we decide to move down this route?

**David Melhuish:** One of the concerns is about the disincentive that the proposal might be to new developments and the impact that that might have on the supply of new property into the industry. There is evidence to suggest that little is now being done, because of a fear of incurring void rates, which can add a significant cost and eat into the returns that investors might expect. In effect, that can mean that a project will not happen unless the developer has gone through the difficult process of securing an up-front tenant.

We can only infer anecdotally what the level of property companies entering administration is, but I think that it is a high proportion of the recent figures. The representative body R3 certainly reported a very high proportion of administrations in that sector.

We would like to have seen support for commercial new-build such as some kind of exemption at least until the first point of occupation to encourage new suppliers into the market. The Government was interested in the proposal but, unfortunately, there were state aid issues.

**Kevin Stewart:** Do you wish to comment on that, Ms Laing?

**Sarah-Jane Laing:** No.

**Margaret Mitchell:** As Kevin Stewart has covered the question of how certain adverse consequences might play out in England, I want to pin the SPF down with regard to comments in its Finance Committee submission on the extent to which the English experience reflects the impact of recession rather than the reform of the property rates.

**David Melhuish:** The introduction of the policy as we entered this recession—to which, I have to say, there seems little end—exacerbated the hardship for landlords and, as I have just explained, added to disincentives to develop new build. It is very difficult to distinguish between the two factors. As ministers up here have suggested, the policy was introduced because of the view that it would bring back into use properties that were being deliberately withheld from the market.

However, the number of vacancies catapulted from 3 to 14 per cent. The fact is that demand was weak and the policy simply did nothing to bring properties back on to the market. Instead, it has increased taxation and, therefore, increased hardship on businesses that are not getting any return whatever on the properties in question.

**Margaret Mitchell:** It certainly seems to have had the opposite effect. The increase from 3 per cent in 2007 to 14 per cent is a quite startling figure.

**David Melhuish:** I also believe that those were retail vacancies.

**John Pentland:** Following on from Kevin Stewart's question, I believe that you mentioned encouraging speculative development in our town centres and other areas. Is the bill having an impact on people taking such chances or opportunities, or do you have any evidence to suggest that people are holding back in that respect?

**David Melhuish:** Of course the policy will not come into effect until next year. However, it will considerably heighten risk with regard to liabilities that might be incurred. Even when the market was strong, those who developed speculatively were looking at quite high void rates. The process of getting in tenants is a major risk for developers and, although this might sound bizarre, we are concerned at the lack of top-quality grade A space available for businesses to move into quickly. Businesses do not want to hang around for planning permission to be granted and developments to happen months or years down the line. If, for whatever reason, they decide that they need to relocate, they want to move as quickly as they can, so there is a good reason for having a certain level of a certain type of vacant property on the market at any one time. Glasgow and Edinburgh are starting to suffer from a lack of grade A space of, say, 80,000ft<sup>2</sup> and, for such cities, which are very open to investment, that is going to be a problem.

**John Pentland:** Would the proposed reforms be considered more appropriate if they were being introduced at a time of stronger economic growth?

**David Melhuish:** We think that the arguments for introducing the policy would be stronger if it were happening when the economy was performing strongly.

**James Dornan:** Does the financial memorandum provide a reasonable estimate of the reforms' financial impact?

**David Melhuish:** We do not think so; it might have underestimated the costs to businesses in general. By the way, we also think that it has underestimated the costs to the public sector,

which means that the provisions could be something of an own goal. In short, we think that the £18 million figure to be retrieved from the empty rates relief budget could be an underestimate.

**James Dornan:** And I take it that you have made your concerns clear.

11:15

**David Melhuish:** Indeed—and we have given the evidence that we submitted to the Finance Committee to Scottish Government officials.

**James Dornan:** What different assumptions could affect the costings?

**David Melhuish:** The assumptions that I am worried about relate to the interplay with other forms of relief and the amount by which the Government thinks the overall impact will be reduced. The small business bonus scheme, for example, has been very effective in supporting this section of the market; in fact, I should probably declare an interest as a property-owning ratepayer who benefits from the scheme.

**James Dornan:** You and so many others.

**David Melhuish:** However, although the scheme has had a clear incentive, it is limited and those with a number of properties have to be under a certain threshold in order to benefit.

Aside from our concern about the interplay with other reliefs, we have expressed to the Finance Committee our concern at not being able to get information easily or to get a handle on the cost of listed properties retaining exemptions. We also fear that there might have been an overestimate of the reductions to the overall bill based on certain assumptions about the number of properties receiving 100 per cent relief that switch quickly to 50 per cent relief—a situation that, of course, will change under these provisions.

**James Dornan:** Have the expected costs to the public sector been adequately reflected? You have already said that you do not think so, but I wonder whether you can expand on your comments.

**David Melhuish:** We felt that the Scottish Government's suggested costs seemed very low. Indeed, subsequent to our expressing that view, Glasgow City Council has now suggested that it alone might face costs of anywhere between £0.5 million and £1 million, and we do not know whether that figure also covers the council's arm's-length companies and so on. We were also surprised by the Government's claim that only 12 of its properties might see an increase in liability, particularly given that, when we examined the valuation roll, we found that organisations such as Scottish Enterprise had a large number of empty

properties, and we felt that the bill's estimate of what the Government would pay was undercooked.

**James Dornan:** When we discussed this matter at yesterday's Subordinate Legislation Committee meeting, it was suggested that the likes of the national health service would be putting in their own figures. The properties in question are those owned strictly by the Scottish Government.

**David Melhuish:** Indeed, and we think that that is a very limited view of what the additional bill for the taxpayer will be.

**Anne McTaggart:** In light of John Pentland's question about the proposed reforms, do you think that vacant non-domestic properties are an inevitable feature of an economic downturn?

**Sarah-Jane Laing:** Yes.

**David Melhuish:** There will always be a certain number of vacancies, even when the economy is performing strongly.

**The Convener:** Thank you for that evidence. As agreed, we now move into private session.

11:18

*Meeting continued in private until 11:38.*



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