OFFICIAL REPORT
AITHISG OIFIGEIL

Finance Committee

Wednesday 28 September 2016

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Pàrlamaid na h-Alba

Session 5

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FINANCE COMMITTEE
6th Meeting 2016, Session 5

CONVENER

*Bruce Crawford (Stirling) (SNP)

DEPUTY CONVENER

*Alex Johnstone (North East Scotland) (Con)

COMMITTEE MEMBERS

*Neil Bibby (West Scotland) (Lab)
*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Ash Denham (Edinburgh Eastern) (SNP)
*Murdo Fraser (Mid Scotland and Fife) (Con)
Patrick Harvie (Glasgow) (Green)
*James Kelly (Glasgow) (Lab)
*Ivan McKee (Glasgow Provan) (SNP)
*Maree Todd (Highlands and Islands) (SNP)
*Adam Tomkins (Glasgow) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Karen Campbell (Homes for Scotland)
Jonathan Gordon (Royal Institution of Chartered Surveyors)
David Melhuish (Scottish Property Federation)
Professor Mark Stephens (Heriot-Watt University)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Finance Committee

Wednesday 28 September 2016

[The Convener opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Bruce Crawford): Good morning, everyone, and welcome to the sixth meeting of the Finance Committee in the fifth session of the Scottish Parliament. I have received apologies from Patrick Harvie, who is unable to attend the meeting, and James Kelly will join us during our proceedings. I also remind everyone to switch off their mobile phones or at least put them into a mode that will not disturb the meeting.

Agenda item 1 is a decision on taking agenda item 3 in private. Do members agree to do so?

Members *indicated agreement.*

Land and Buildings Transaction Tax

10:00

The Convener: Item 2 is a continuation of our evidence taking for our inquiry into the first year of the operation of the land and buildings transaction tax. Today, we will hear from Karen Campbell from Homes for Scotland; Jonathan Gordon from the Royal Institution of Chartered Surveyors; and David Melhuish from the Scottish Property Federation. I hope that I pronounced your name properly, David.

David Melhuish (Scottish Property Federation): You did, convener.

The Convener: We will also hear from Professor Mark Stephens of Heriot-Watt University. I warmly welcome our witnesses to our meeting. Members will have received copies of the panel members' written submissions and a paper from the clerks.

We will go straight to questions. Specific questions might be asked of specific people, but the witnesses should feel free to contribute if they wish to do so. Ivan McKee will begin the discussion.

Ivan McKee (Glasgow Provan) (SNP): I thank the witnesses very much for coming to the meeting.

The first issue that I want to explore is the impact of the change to LBTT on the Scottish Government's overall tax take. I have hunted through the numbers, but I have failed to find any evidence of that. Perhaps the witnesses can help me.

The total tax take for residential properties was £270 million in the last year of stamp duty; the figure then dipped to £202 million, which we would have expected as part of the forestalling effect. However, in the first four months in 2016-17, the figure was back at an annualised run rate of over £280 million. When that is broken down by quarters, we see the same trend, with a hit in the first quarter after the change to LBTT as a result of forestalling and then quite a quick recovery. Similarly, we see a huge number of high-value properties of over £1 million clustered together right at the end of that financial year and then a dip for a few months. However, 16 to 17 months after the change, the situation has fully recovered and is back to where it was before.

I know that the Scottish Property Federation has alluded to a change, but when I look at the number of transactions in the £325,000 to £750,000 range, I see that the figure is up compared with two years ago. It is very difficult to see the numbers from the SPF's table, but even taking into account the effect of forestalling between 2014-15 and 2015-16, I really see no evidence of a tail-off as a result of the changes.

Do you want to comment on any of that?

David Melhuish: Yes, I am quite happy to refer to that. There were quite a few questions in there.

There is a point I should make about the tax take for 2016-17, which you referred to. In the overall headline figures from Revenue Scotland, the residential figures include the additional dwelling supplement, which has boosted them considerably to date. A separate column strips that out, so the residential figure can be taken and reduced.

Ivan McKee: Do you have a value for that?

David Melhuish: I think that it is over £16 million.

Ivan McKee: In which period?

David Melhuish: I think that that is up to the end of June, so it might not include July. At that stage, the residential figure was £65.5 million for the 2016-17 financial year.

Ivan McKee: That is correct. The figure for the first three months was £65.5 million.

David Melhuish: As I have said, the ADS is quite a significant slice of that, and at the moment, we do not know how much of that should be repaid. I think that there is an 18-month period in which some of it might be reclaimed by the taxpayer. I do not have a handle on how great a proportion that might be, but the 3 per cent additional supplement makes a significant change.

Ivan McKee: The issue is what the run rate for that was before and whether it is significantly more now. With the ADS, we would expect a forestalling effect to hit in the previous quarter—the January to March quarter—and then a dip in the next quarter. Do you have an estimate of how much might be due to forestalling?

David Melhuish: The best estimate that I have seen is from the Scottish Fiscal Commission, which I think came out with an estimate of around £7 million. Our take on £1 million-plus houses is that there was a dip after a period, as you have reported, but the market recovered later in the financial year, seemed to get going and again, as roughly expected, had moved along by the end of that year.

On the £325,000 to £750,000 range, I think that there was a change between 2014-15, which was the last year of the stamp duty land tax, and 2015-16. I think that we have suggested in the table that we have provided a reduction in the number of transactions there, and I believe that in its own report the commission estimates a fall-off of around £35 million in forecast revenue in that area.

Ivan McKee: Who has estimated that?

David Melhuish: I think that the Scottish Fiscal Commission estimated that in its outturn report.

Ivan McKee: Is that against the forecast?

David Melhuish: Yes.

Ivan McKee: Right. We really have to compare that against previous years, as the forecast was revised upwards, and it was not met. For a true comparison, we have to look at previous years, and we do not really see any drop-off at all.

According to your table, there were 1,991 transactions in quarter 1 of 2016 in the £325,000 to £750,000 range. Annualised, that is almost 8,000, which is more than in any of the previous years.

David Melhuish: Yes. That is in the £250,000 to £325,000 range.

Ivan McKee: It is in the £325,000 to £750,000 range. There were 1,991 transactions in Q1 of 2016. That is at the bottom of page 4 of your paper.

David Melhuish: Are you referring to the table?

Ivan McKee: Yes—the table at the bottom of page 4 of your paper.

David Melhuish: The figure for 2014-15 is 7,555 for the range £325,001 to £750,000.

Ivan McKee: That is right.

David Melhuish: That goes down to 7,390 for the first year of LBTT.

Ivan McKee: Yes. That is the forestalling effect. At Q1 of 2016, it is back to almost 2,000, or 8,000 annualised.

David Melhuish: If you annualise that figure, obviously we must see it—

Ivan McKee: Sure, but the point that I am making is that there is absolutely no evidence that there has been any hit on transactions or revenue.

David Melhuish: That was just a straightforward number-for-number comparison between the last year of SDLT in that price range and the first full year of LBTT. I think that a lower number of transactions took place.

Ivan McKee: Yes. There were 165 fewer transactions, which is around 2 or 3 per cent. That is minimal if we compare the forestalling impact.

David Melhuish: If we look at the trend, we see a significant increase with the recovery from the recession, but all of a sudden we see that change. We have suggested a drop-off of 160-odd transactions. I cannot think of any other reason—

Ivan McKee: Well—forestalling.

David Melhuish: Yes, but if the trend was like that, even with forestalling, and if it stayed at that level—

Ivan McKee: Sure, but it is now back up.

David Melhuish: I think that the tax had an effect on behaviour.

Ivan McKee: I cannot see any evidence of that based on those numbers. There has been a 2 or 3 per cent drop off, which is less than what we would have expected for forestalling if we think about the amount of money involved and how easy it is to move things a week or two. There is no evidence there, and we are now back at a run rate that is significantly higher than it was in the previous year or the year before. It is difficult to argue that there has been any downturn. You might say that there should have been much faster growth, but I see no evidence of any hit at all in what has happened with those numbers.

David Melhuish: We would probably stand by our line that there were significant increases in activity between those bands. That activity then stalled, for want of a better word, and the only things that I can see that might have had such an impact are the changes in tax and to the rates and thresholds above £325,000.

Ivan McKee: The numbers do not say that. They have continued to increase.

David Melhuish: I disagree.

Ivan McKee: Well, 1,991 annualised is a bigger number than 7,390 and 7,555.

David Melhuish: That is for the first quarter of 2016, so—

The Convener: Can I interrupt for a second to seek some clarity? Is the table at the bottom of page 4 in the Scottish Property Federation's submission your own, or did you take it from somewhere?

David Melhuish: It is from Registers of Scotland.

The Convener: Forgive me, folks, but I do not understand how it compares with the table in the papers that we have been provided with today. The figures that we have been provided with by Registers of Scotland suggest a different picture—not in money terms, but in terms of numbers of transactions. Do you have that table in front of you?

David Melhuish: Yes.

The Convener: In 2014, there were 6,960 transactions involving properties worth £325,000 to £750,000—I have just added that up over the last wee while, and I hope that I have got it right. In 2015, there were 7,890 transactions. The figures for those two full years suggest to me that, between 2014 and 2015, the number of transactions increased. Have I got that right?

Ivan McKee: Based on the numbers that we have, that is right, but those numbers are different from the numbers that the SPF has.

The Convener: We need some clarity on that. The figures have obviously been sourced from somewhere. It is the same for properties worth more than £750,000. According to the figures that we have from Registers of Scotland, the number of transactions was 470 in 2015 and 540 in 2015. There is obviously a disparity somewhere between the figures that are available from the Scottish Property Federation and the numbers that we have been provided with by Registers of Scotland.

Ivan McKee: The numbers are not that dissimilar.

Neil Bibby (West Scotland) (Lab): Are they not the numbers for the financial year and the calendar year?

Ivan McKee: It could be something like that.

Jonathan Gordon (Royal Institution of Chartered Surveyors): Is it not just that one set of numbers is for January to December and the other is for April to April? One is for 2014 and the other is for 2014-15.

Neil Bibby: That is what I think.

The Convener: I see. One is for the calendar year and the other is for the financial year. We needed to clarify that so that we know exactly where we are. I am sorry to interrupt, Ivan, but I needed to understand that, for my own sake.

Ivan McKee: That is fine. I think that I have made the point. The argument then comes down to the fact that you expected the numbers to go down, but they did not. Compared with previous years, no money has been lost as a result of the change.

David Melhuish: The only comment that I have seen on that is the Fiscal Commission's outturn report. It had a look at forestalling and traded it off, and then it looked back at the £325,000 to £750,000 band. From what I could see in the report, that was the only band where there was a significant difference between what was expected and what happened in the outturn. That is not our data, but that is my comment on that.

Ivan McKee: However, it is certainly not true to say that there has been a drop-off in transactions. They might not have continued to increase as rapidly as you might have expected, but it would not be true to say that there has been a drop-off.

David Melhuish: We can say that they have stalled. We have highlighted in our submission the slight dip in the numbers. You might argue that that is the effect of forestalling, but there is other analysis of that. We would say that the market saw behavioural change within those bands at that time.

Ivan McKee: I say again for the record that I see no evidence for that.

Murdo Fraser (Mid Scotland and Fife) (Con): I do not take the sanguine approach to the figures that my colleague Ivan McKee does. Last night, I was looking at some fairly detailed breakdowns from Registers of Scotland that cover the different property bands over the past seven quarters, and it seems to me, having read your evidence, that the most sensitive price bracket is probably £750,000 to £1 million.

If someone is buying a house that is worth more than £1 million, the chances are that LBTT will be less of an issue. If a problem was going to be generated by high levels of LBTT, it would probably be demonstrated at the point where people move up into the large family house bracket—in other words, the £750,000 to £1 million bracket.

10:15

If we look at the figures in the Registers of Scotland data and compare some quarters, we see that, in the July to September quarter, there were 102 transactions in that bracket in 2014, while in 2015, there were 68. If we look at the January to March quarter, there were 73 transactions in 2014; in 2015, there were 104; and in 2016, the figure had dropped to 58. That rather confirms your proposition that there has been a drop-off in transactional activity in the £750,000 to £1 million bracket.

Whether that relates to LBTT rates is a different issue, and I am interested in getting your take on that. If there has been a drop-off in activity at the upper end of the market but not at the very top end, what is that attributable to? Might other factors be a part of that or is it, as your written evidence suggests, mostly down to LBTT rates being high?

David Melhuish: As I have said, there was a dip in that higher band, although activity then started up again at that level. I only saw the quarterly breakdown late last night, but when I compared that with the figures that we have, I saw a difference of three transactions in one quarter, which is not significant.

As for other factors, we cannot ignore the impact of the north-east on the high-value bands as a result of the change in the economy up there. A lot of houses in those house price bands would be in that area of the market, so that would have had an impact on activity.

However, we make the point in our written evidence that the market is a continuum and that changes to high-value bands do not just affect those bands. They have a knock-on effect lower down the property market chain with people aspiring to move upwards and, perhaps, some people in larger houses aspiring to move downwards. If the tax thresholds and rates are too lumpy, that will have a negative impact on that flow of activity.

Murdo Fraser: Thank you. Mr Gordon, I want to put a similar question to you. I note that you say in your written submission:

> "RICS urged the Scottish Government to err on the side of caution when considering a significantly higher tax rate for Scottish properties at the higher end of the house price spectrum. We felt that this would hurt revenue generation through this part of the housing market as foreign investors would look to invest elsewhere in the UK."

Do you feel that that concern has been borne out by the evidence?

Jonathan Gordon: I am representing the RICS but I did not write the evidence—I am standing in for Hew Edgar. I have a personal view and a RICS view.

My personal view of the bands is that I am not sure in which parts of Scotland £750,000 is the cost of a normal family home. If we simply look at people's average incomes—even double them to £50,000 or £60,000 and multiply that by what people can borrow—those people can maybe get £250,000 or £300,000, and they may have a couple of hundred thousand pounds as a deposit. If we look at people's real lives, anything over £500,000 starts to become a really significant price for a property, and we are not really looking at normal people who have normal incomes, to put it in layman's terms. For that reason, I am not that concerned about the sector above £750,000.

However, once we get above the price where we start to pay more compared with the old tax and with what people pay in England, which is round about three hundred and something thousand pounds, there is a really serious impact on what happens in the market. If somebody considers moving from a £300,000 house to a £500,000 house, which they could maybe afford with a couple of average incomes and some equity in their properties, the stamp duty of £30,000 or £20,000 becomes almost equivalent to one of their salaries. That is the area of the market that the RICS has focused on.

The upper end that we are talking about is not really the £1 million properties, although it all filters down, to a degree. There may be only a few hundred people who can buy properties above £750,000, but we still need people to move into that sector when they get lucky in life and can afford it in order to free up the market at the £400,000 or £500,000 mark. There might be some issues about that. Personally, I do not have the money for the extra stamp duty to move from a £400,000 house to a £500,000 house and I would be in that situation if I moved.

The Convener: There has been a wide range of questions but neither Mark Stephens nor Karen Campbell has had a chance to contribute. Before we go on, is there anything that the two of you would like to say?

Karen Campbell (Homes for Scotland): I want to make a couple of observations on the previous two questions. The first relates to statistics. Although Homes for Scotland does not collect stats on the impact of new build, there has been debate about the existing evidence, as it might not yet show the contribution of new build to any dip. That is a good point to make.

The feedback that we are getting from house builders is that they are having to pay the stamp duty themselves. As businesses selling homes, they are in a different position to individual sellers so, to persuade people over the line to buy homes, they are either making up the difference or paying the full stamp duty. That is clearly not sustainable and, as a result, house builders are taking action to remix sites or develop smaller properties. They are listening to the market, and LBTT is having a really big impact. Any impact on the stats from new build, sales of which form just a proportion of all annual property sales, might not be seen until next year or the year after.

I do not claim to be an expert on stats—indeed, you could drown in the stats that are available. I would suggest that, if the committee were to have another evidence session on LBTT, it could bring in some experts to look at the many stats that are out there. That said, I understand that there is a difference in the ROS data with regard to date of entry and date of registration and that that might cause a lag. The stats that we looked at earlier were based on registration, but some of the transactions actually took place as part of the forestalling in March and might not show until the next financial year. That is worth bearing in mind if somebody does more work on the stats that have been presented.

The Convener: Representatives from the Scottish Fiscal Commission are coming next week, but I have asked the clerk to do some reconciliation work on the figures before we hear from them. The table of figures helpfully provided to us by the Scottish Property Federation needs to be compared with the annualised figures; indeed, Jonathan Gordon was right to suggest that those figures had been annualised. If we take the financial year out of the annualised figures—and this is based on my quick reconciliation of the figures—we see that the drop in the number of homes between the sale values of £325,000 and £750,000 sold between 2014 and 2015 was only 65. Before next week, we need to ensure that our information is tightened up, that the figures are right and that we know exactly what is happening. However, it seems to be the case that there has been a small drop-off in sales, rather than the big hit that Karen Campbell has suggested.

Jonathan Gordon: Could the figure for homes that have sold for between £325,000 and £750,000 be broken down into £100,000 bands in time for the committee to look at it? After all, there is a marked difference between £20,000 and £60,000, which are the stamp duty amounts paid within that band.

The Convener: We will ask for that as it will provide us with more clarity.

Ash Denham (Edinburgh Eastern) (SNP): Professor Stephens's submission suggests that LBTT should be allowed to settle. The RICS submission contained a lot about the key strands of stability and consistency, and its recommendation to the Scottish Government is that the bands and thresholds should not be changed until the results of the research report are out—just for the record, that report is called "Evidence review: tax forecasting models for the housing market". Will the market adapt and settle, or has it already done so?

Professor Mark Stephens (Heriot-Watt University): It is simply too soon to know. I encourage you to step back from the relatively short period that we have been examining in great detail and to think about the way in which the housing market operates and the way in which LBTT and its predecessor taxes have operated.

We know that the housing market is volatile and is not driven just by incomes or the number of households; it is also an asset market, so it is driven by expectations of changes in capital values and so on. As a consequence, it is a volatile market—prices are volatile and transactions are even more volatile. There are a number of graphs in my paper that indicate quite how volatile revenues from stamp duty and its successors have been.

That said, we expect transaction taxes to have an effect on the market. We know from experience of changes in transaction taxes that those changes can have an effect on behaviour, and that anticipated changes in taxes can also influence behaviour. Incidentally, that is another reason why it would be sensible to dampen speculation about changing bands in the short term.

There is a further effect. Concerning any short-term disruption to the market, it might be the case that prices in the higher ranges have not yet fully responded to the impact of an increased average tax burden. Over time, we expect a higher average transaction tax to have the effect of downward pressure on prices. However, we know that when there is a reduction in demand during the housing market cycle, homeowners who are trying to sell their properties are nonetheless reluctant to lower the price. They know how much their property was worth a few years ago—or when they bought it, or at the peak—and are reluctant to accept that it does not have an intrinsic value and that its value can fall.

For those reasons, among others, it is too soon to say whether the impact has followed through completely. My intuitive feeling is that it has not, so it would be sensible to examine the longer-term impact of the new regime.

The Convener: Do others have a view on that?

Karen Campbell: I certainly have a view. The new-build industry is taking action now in response to the situation. Anybody who has sites with planning permission that are not selling is taking those sites back to the planning stage and remixing. Those that have sites coming forward are more likely to change their plans and to build smaller homes, which will have an effect on future revenue projections.

No one likes certainty more than a house builder, given the amount of risk there is during the number of years that it takes to complete a development. The current situation is adding to the uncertainty. I was intrigued by the comments that suggested that we hold on and wait. The markets are suffering to a great extent—particularly in the north-east, although that might be for other reasons—yet we have a lever that we could use to stimulate the market now.

We do not seem to have come to a conclusion today about the impact on revenue for the past year, but once the committee has heard from the Fiscal Commission and has heard feedback from property professionals, if you come to the conclusion that the income that you would want for Scotland is not being achieved, you should act.

I suggest that action is required now, because we have businesses out there that are really suffering. Bigger businesses can change the mix as they have eggs in more baskets, but smaller businesses—those, for example, that are building family homes in St Andrews or up in the north-east—are really struggling. Sites are being mothballed for the first time since the recession—that is a serious concern. To stimulate the market, we cannot wait any longer for the £325,000 to £750,000 band to be corrected or reapportioned, or for England's SDLT to be mirrored by taking the band up to £925,000 in order to keep us attractive to investors.

10:30

The Convener: Do Jonathan Gordon and David Melhuish want to reflect on that?

Jonathan Gordon: I always try to bring things back to real-life examples. The Homes for Scotland submission has a couple of examples of what I would class as aspirational family homes in good areas. Just look at the tax that would apply to those houses and how that would impact on individuals who are trying to buy them.

The majority of the property market—certainly this is the case for people who are buying and selling houses in Edinburgh, where I work—is the resale market. There are not enough homes in the areas where people want to live in the key cities—Edinburgh and Glasgow—and other areas. The market might adjust, but it might not do so in the way that you want it to, if you want there to be a progressive situation.

The lower tax rate or the zero tax rate at the lower end might have increased the number of transactions, but that has also increased the demand. Over the past couple of years, demand has increased to the extent that, for example, 20 people may be bidding for what I would call a poky flat in Dalry. It may be poky, but a small two-bedroom flat may cost about £200,000. It may even have been converted from a one-bedroom flat, so it may only have a poky kitchen in the middle of it. Although the flat may have been valued at £140,000 or £150,000, with 20 people bidding for it, the purchase price goes up towards £200,000. That situation is not helping those people; it is putting them into more debt. They may not be paying £1,000 stamp duty, but because borrowing restrictions have been lifted a little bit and they can borrow more money, they can afford to buy at that price now.

It is not necessarily the changes that you want that are going to settle into the market. Family homes are the easiest ones to build when the market is slow and difficult—those are the homes that are highlighted in Homes for Scotland's submission, as well as other homes up to that level. Homes are much easier to build and plan for than flats, because you can build them as you sell them. However, those are the homes that Homes for Scotland says are not selling because of the tax. That will feed through—people will not move out of those flats, so there will be less supply at the lower end, there will be continued pressures on demand and supply and prices will be pushed up.

David Melhuish: I have a short comment to add to that. I agree absolutely with Karen Campbell about the need to see tax as an instrument to try and stimulate growth. As I have said, we see the issue in the market as a continuum, for the reasons that Jonathan Gordon has just explained very well.

I will make a specific point on changing rates and thresholds. I view the suggestion in our evidence as a fairly minimal change: to move the 5 per cent threshold upwards to about the £500,000-value level would be more a tweak than a significant change. Nonetheless, it could be important to stimulate activity in that particular banding of the residential market.

Professor Stephens: We have some disagreement, here. The key point is that if you cannot sell a house at the price that you want, that may be because the rate of transaction tax has increased on it, so the market response over time will be that the property's value will fall. We cannot say, in a dynamic market, that the price of houses is fixed. It is not; the market will respond. It is important to recognise that. Although the purchaser legally pays the tax, we expect over time for more of the burden to be borne, in effect, by the seller, which would be reflected in the house price.

Karen Campbell: I take and understand that point, but if we are going to stop increasing supply of those types of homes, the market will become distorted: there will be pent-up demand, with more people bidding for the existing homes in that space. It will be a sellers' market, and sellers are unlikely to reduce their price to take account of LBTT.

Jonathan Gordon: In the areas where people want to live, there is not enough supply. If there are five or six people bidding for a house at £500,000, the people who cannot afford the tax will pull out of that market and not bid for the house. The people who can afford the tax—who are wealthier or have higher incomes—will purchase the property at the same price, rather than there being a price drop. As a chartered surveyor, I estimate that that is what would happen in the short-to-medium term.

In a perfect world, in which there was equilibrium between supply and demand—which there is not, and that is why there is a housing crisis—what Professor Stephens said would be correct. I argue that we do not have anywhere near a perfect housing market for many reasons. Overall, LBTT is unprogressive in the way that it is structured; it may even be that it would be unprogressive regardless of how it was structured.

Ash Denham: I understand LBTT to be progressive taxation because people in the residential housing market at lower property prices pay less tax, while people in the market at higher property prices pay more tax because they are able to.

Jonathan Gordon: When I think about progression, I think of incomes and one's ability to live on what one is earning. Let us take the example of two people bidding for a £500,000 house. One of those people could be earning £100,000 a year; the other could be earning £50,000 a year. If the person who is earning £50,000 a year cannot afford to buy the house because of the tax cost, LBTT is an unprogressive tax because only the wealthier person can afford it. The tax is not based on the ability to pay; it is based on the cost of the house.

Ash Denham: I take that point, but the spirit of the legislation is to allow more people to pay less tax at the lower end.

Jonathan Gordon: The spirit of the legislation is correct and admirable. My anecdotal evidence is based on key areas in Edinburgh city centre. In some areas, prices are shooting up for the first time by 10 per cent or 20 per cent. In some cases, over the past year and a half, they have increased by 10 per cent in the spring and then by 10 per cent again in the autumn. That is unsustainable; it is not affordable for the people who are trying to buy those properties.

The tax has been designed to be progressive, but it has created a situation in which first-time buyers have to get further into debt and pay more for their houses even though they are paying less tax.

The Convener: Mark Stephens wants to come in. After his contribution, we will try to move on from this area.

Professor Stephens: The question of progressivity has also been visited with, for example, council tax reform. The academic view is that how progressive a tax is, is measured against the tax base—in this case, the tax base is property values, so in that sense the tax is unambiguously progressive. However, we also know from consultations on council tax reform that people's perception of progressiveness, or fairness, also strongly relates to their current income. We do not know clearly how closely related tax is to people's monetary incomes. It is for the committee to take a view on that and on the importance that you attach to the two issues.

The Convener: Willie Coffey has a supplementary, then I will bring in Alex Johnstone on regional variation issues.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I want to pick up on the issue of the impact on high-value properties. The Registers of Scotland data that we have suggests that high-value properties are performing pretty well. We can haggle about whether the figures relate to the calendar or the financial year, but it looks as though they are performing pretty well when you compare them with the other band thresholds.

This morning, I had a look at the David Wilson Homes website, which is where one of the examples in the Homes for Scotland submission come from. That house is on the website at a higher price than you have shown. The submission says that it is worth £474,000, but on the website it is down as £479,000. I am curious about whether there is an impact here and whether any action has been taken to try and reduce the prices or something like that.

I have looked at other evidence from that particular street, where there have been recent sales. Only last October, a house was sold for £360,000; it is now valued at £380,000. The increase in the value of that house now exceeds the cost of the LBTT that might have been applied to it. There is another side to the coin. These are very high-value properties and, in a small matter of a year, the increases in value are in some cases far exceeding the impact that the LBTT might have had on it. In promoting and marketing such properties, do you take into account the fact that they are high-value properties that in a short space of time will appreciate in value much more than properties in other bands might?

Karen Campbell: I find it interesting that you have looked at the website, and I welcome your interest. The difference in prices may be because the houses that you looked at are different products; one could be a more attractive plot or have a sunnier garden—lots of things affect the value. The values in question were picked randomly, but I thought the Fairmilehead one was interesting because the property is a family home and—no offence to David Wilson—there is nothing hugely luxurious about it. It is a family product, but they have to pay—

Willie Coffey: It is £479,000.

Karen Campbell: Unfortunately, that is what people have to pay for a family product in Edinburgh, but it is certainly not the house builder who sets the value: it is the market. The tax bill will be 20 grand, but buyers at that level are intelligent and will be able to calculate what it would have cost them a couple of years ago and how the cost compares to what people are paying in England.

Willie Coffey: Yes, but in a year’s time the increase in the value of that house will far exceed the price that they have paid in LBTT.

Karen Campbell: It might.

Willie Coffey: The evidence suggests that it will.

Karen Campbell: That is the case for the sale that you have identified, which is good news for that buyer, but that does not always happen. The issue is cash flow. There is a cash burden on family buyers who are looking to move to a new home but who have to find 20 grand in cash to make that move—that is the issue. They might get a capital increase further down the line, although whether that is realised is a different story. The issue is the cash impact on them.

Willie Coffey: It is a good return in less than a year when somebody can look forward to the rise in the value of their house exceeding the amount that they paid in tax.

Jonathan Gordon: It is not real money, though.

Willie Coffey: Well, I know—

Jonathan Gordon: I did not get into the market quick enough when I was younger. However, there are people in my lifetime who bought a flat for £50,000 that doubled in value, so they sold it for £100,000; then they bought something for £125,000 that also doubled in value over five to 10 years. To me, that is not a great market. The reality of the situation is that the majority of people who are purchasing or trying to purchase houses worth £400,000 or £500,000 in and around Edinburgh—I guess it is the same in and around Glasgow—are people who have come up the housing ladder that everybody talks about and who do not have £20,000 in cash. They overstretch themselves for the mortgage to get the house that they need for their family.

We have to draw the discussion back to real situations and think about cash. A house can go up in value and be sitting there as an asset, but the owner cannot do anything with it unless they sell the house, and then they would have to pay even more stamp duty, which is money that they do not have.

Professor Stephens: I am puzzled by the idea that one can assert that house prices are set by the market, then build a house and put a price on it that means that no one will buy it. The only response to that is that the price that one is asking for is higher than the market value and it will be sold only if the price is reduced. There is a fundamental question here about how actors in the house market are responding. We should at times expect house builders also to respond to what the market is telling them.

The Convener: We will move on now to the issue of regional variation.

Alex Johnstone (North East Scotland) (Con): The tipping-point figure for when the tax payable goes higher than that in the rest of the UK is about £330,000. I come from the north-east and know that nobody gets much for £330,000 within 15 miles of Aberdeen city centre. The result, in my view, is that the market has been damaged. What do you think is happening to the market in places such as Aberdeen, where the tax is really biting?

10:45

Karen Campbell: I will kick off from the point of view of new build. The market in the north-east is damaged absolutely, but perhaps that is due to more than LBTT. As I outlined earlier, LBTT is a lever that is within the Scottish Government's control. The fact that sites are being mothballed is terrifying, though. Builders are taking properties to the standard of being wind and watertight but cannot afford to take them any further because the market is not there. Where a builder has not yet started building, they are trying to remix the build. The new-build industry is reacting as fast as it can to the market. Unfortunately, given the planning process that we have across Scotland, that could take a number of years. There will therefore be a slow reaction in bringing forward cheaper properties and perhaps targeting a different market in the north-east, but right now that area is really struggling and the market could do with some stimulation.

The Convener: There is obviously anecdotal evidence, but there must also be real evidence about what is happening in the market overall. As Karen Campbell indicated, that could be about economic matters or financial or demographic issues in the north-east and other areas. Has any work been done to get underneath to what the real issues are? We had evidence from Aberdeen City Council, for instance, which said that it could not put a finger on one specific issue that was causing the downturn in the north-east. Does Homes for Scotland or anybody else have any real evidence on a specific cause? It would be useful to know if there was any.

Karen Campbell: Unfortunately, we do not have such evidence. We are not resourced to collect that kind of granular data. I do not know whether the chamber of commerce, for example, has any information.

The Convener: Does anybody else have any evidence?

David Melhuish: We have local authority-level breakdowns by price bands, which are tagged to LBTT rates and which were the basis of what we have put in over a period of time. Again, though, that is only quite high-level quantitative data. However, we certainly have local authority-level breakdowns for Aberdeen and Aberdeenshire, that we can provide.

The Convener: We can see the slowdown in the market and the issues there, but we do not have any evidence about what is actually causing that.

David Melhuish: You cannot disengage the causality of it from what has happened in the economy in the area. Figures that came out yesterday showed that 100,000 jobs have gone in the north-east, and that is obviously going to impact on people's ability to pay market prices.

Alex Johnstone: I know that the problem exists not only in the Aberdeen area but in areas of Edinburgh and Glasgow. In effect, there is a one-size-fits-all tax across the whole country that is impacting disproportionately areas with higher house prices. How does that distortion play out across the rest of the housing market? Is it causing people to travel further to work, for example? Are there socioeconomic problems that are being caused by that distortion?

Karen Campbell: That is not something that we have any evidence on at this stage. As I said, the true impact on new builds has not been felt yet, because the builders are unfortunately having to make up the difference by footing the bill for the tax on the stock that they are selling now, but that is not going to happen going forward. We do not know yet what the wider impact is. We do not even have any anecdotal evidence about it.

Alex Johnstone: You have indicated a couple of times that, in some cases, builders are absorbing the cost of the additional tax. Certainly, my experience is that builders who are building houses that have significantly higher tax liabilities are saying that they simply cannot absorb that cost because it is too high a proportion of the cost of the building. What I have observed in the north-east confirms what you are saying in that sites are showing very low levels of activity or are being mothballed. That is happening in an area where there is still an identifiable housing shortage. What is the impact on communities where there is a housing shortage but the builders will not build?

Karen Campbell: I would imagine that there is a massive impact. We are not building nearly enough homes across Scotland, so there is a national impact. However, the impact will be greater in some communities where people want to live but the demand for houses far outstrips the supply.

I should clarify my point by saying that I am referring to builders who have brought the homes to the stage where they have to move off the site. It is for stock properties that sales will be incentivised, as opposed to those that are just coming out of the ground, which the builders can stop building until they sell; the builders will not complete the build. That is the distinction. The builders are incentivising when they have to, because they are desperate to get a return on the cash that they have invested in the property.

Alex Johnstone: On the relationship between the market in the long term and the market as it is, Professor Stephens suggested earlier that, if a house is built and it cannot be sold for what the builder wants for it, it will have to be sold for a lower price. That might work for an individual house, but it means that houses will simply not be built.

Karen Campbell: Exactly, or if it is going to be a long-term trend over the next five years, builders could start to incorporate a lower house price into the land values. However, most of the homes that are being built are on land that has already been purchased and the price has already been agreed, based on market values.

The Convener: I will let Mark Stephens respond to that because Alex Johnstone quoted him.

Professor Stephens: We are in agreement there. It is not that the houses will not be built but that, over time, the land values will go down, which would then mean a lower market price.

The question of housing supply is very important. I do not want to diminish the possibility that a transaction tax is distorting and that it might be doing so to an undesirable degree—we do not know yet—but it would be a big leap to suggest that that is a major factor in the question of the overall supply of housing. There are far more important factors and I think that we are all familiar with them.

Maree Todd (Highlands and Islands) (SNP): I have a question for Karen Campbell. In talking about the additional home supplement, your submission says:

> "We continue to believe that the purchase of new build properties for buy to let purposes or as second homes represents additional activity, which does not 'crowd out' the purchase of homes by first time buyers."

How do you know that? Where is the evidence for that? I imagine that, in reality, such purchases would affect the house prices in the areas where there are second homes. To give you a little bit of background, I represent the Highlands and Islands, where a lot of second homes are being bought. Communities are becoming seriously unbalanced because 50 to 60 per cent of the housing stock is second homes. I am interested to see the evidence for what you say.

Karen Campbell: Our intelligence is very much based on discussions with home builders.

Maree Todd: Is it anecdotal?

Karen Campbell: Exactly, yes.

Activity by investors can help the supply for first-time buyers. An example of that is flatted developments. An apartment building is a huge investment and risk for a builder. Developers will often sell a number of plots off-plan and that gives them the cash flow and confidence to deliver the development. I know that the additional home supplement is having an impact on the number of plans for flatted developments because the builders are not confident that they are going to get the up-front investment that they require to deliver the full development. That is significant. We definitely see new build as different in terms of the additional home supplement.

Feedback that we have had from builders suggests that the products that they are delivering in some of the rural locations that you represent are not targeted at the first-time buyer market. They are very much luxurious holiday homes for people who can afford it. Having such people invest in a community can stimulate the local economy.

Maree Todd: Again, I would ask you where the evidence for that is. If you live in a community of a couple of hundred people and half of the houses are owned by people who do not live there, it puts a strain on the local school and how the community runs. Where is the evidence?

Karen Campbell: Our intelligence comes from member feedback. We do not collect any data on that. We are not resourced to do so.

David Melhuish: I have a point to add to the good point that Karen Campbell has made. The issue is also about small and medium-sized enterprise house builders who might get going, or property entrepreneurs. The additional tax at that level can have a negative influence on their ability to go ahead with a development appraisal and so on. The SME house building industry was hit very severely in the recession nine or 10 years ago and it has not really recovered. I just want to add to the point that the tax can have a negative impact on people who are trying to get going in house building that is below the six-property threshold. Cumulatively, that can add up to quite a lot of supply and it did so before the 2008 recession.

Jonathan Gordon: There is obviously a problem in the Highlands and Islands. I would not argue with that. However, when it comes to new builds, most big house builders—and unfortunately it is becoming more limited to big house builders who are able to plan, particularly for things such as changes to tax rates—are planning ahead. They own bits of land already. As Karen Campbell said, when they are building flats, the builder will own a bit of land for a few years and try to plan ahead or do land banking, which some people argue is not a good thing. They try to plan ahead so that they can build enough homes to keep the company going and growing. They do not sell all the homes in one go. They build the flats, block by block, as they sell them.

It is common sense that, if the builder does not sell 50 per cent of the flats to investors, they will have to build the flats more slowly and will be less able to commit to starting the block of flats. I am convinced that the additional dwelling supplement is restricting some investment in buy-to-let properties and slowing down the rate of planning for building blocks of flats in key areas such as Edinburgh and Glasgow where they are needed. That is not just anecdotal evidence. It is factual evidence that is based on the number of properties that we take on from new investors as a company in Edinburgh.

Maree Todd: Does anyone else on the panel have any thoughts on the rural situation and the question of whether the additional dwelling supplement makes a difference to second home ownership? Is there any evidence out there? I was just struck by the fact that the Homes for Scotland submission was so positive.

The Convener: Mark Stephens, do you want to make any comments? I am not forcing you to but feel free if you wish to.

Professor Stephens: I am sorry, but I do not have the evidence. To put it in context, there is a special problem in housing markets in which a significant number of purchasers are coming from another area where incomes might be much higher. I suppose that you get that in London with international investors, and clearly the same thing happens in the Highlands and Islands. I do not know how significant a 3 per cent surcharge is, but I would guess that it is only significant at the margin.

The Convener: Do you have any other questions, Maree?

Maree Todd: I had another question about broadening the range of the band, but we have covered it adequately.

Murdo Fraser: I want to follow up on Maree Todd's questions on the additional dwelling supplement. The Homes for Scotland submission talks about the introduction of exemptions to help to prevent the unintended impacts of the additional home supplement. Do you want to say a little bit more about what you are referring to there and what exemptions you would like to see? I think that Mr Gordon and RICS made similar comments.

Karen Campbell: It comes down to the speed with which the supplement was introduced as a new form of revenue. I can understand that that was done to mirror the change made down south. We are starting to experience some of the unintended consequences and a lot more detailed work needs to go into looking at that. We very much welcomed the bulk purchases exemption because we are determined strategically to grow the build-to-rent sector in Scotland. At the minute, that gives us a huge advantage over England. Encouraging investment is very much welcomed.

11:00

Having said that, I have spoken to colleagues in our equivalent organisation down south and there is a lot of noise about expected changes to the SDLT system in this year's budget. They are looking not just at bulk purchases over six units, but at what a landlord already has in their portfolio. A lot of regulation is going on to support the large-scale professional landlord, but we should not forget that small-scale landlords play an important part in housing supply, so we might need to look into increased flexibility there.

Some parents buy a property for their child to use while they are studying or in the early stage of their career. That is quite a regular purchase, particularly for flatted developments in university cities. That will stop and might result in further pressure on other properties in the area, so that needs to be looked into. The rural dimension also probably needs to be looked at with a little more evidence, as Maree Todd pointed out.

The cashflow issue for those who end up as unintended second-home owners needs to be examined, because the supplement could have a strong impact on that. I do not think that most of the public are even aware of that problem. Downsizers who want to buy a retirement home before committing to sell will not want the disruption of having to sell and then quickly finding something new. They might find themselves with two homes. We want to encourage mobility in that area, so perhaps that is an exception to look at. There are a number of possible exceptions and, now that we have experience, a lot more detailed thought is needed.

James Kelly (Glasgow) (Lab): I take Karen Campbell's points. Jonathan Gordon made similar points in his submission. Some would argue that if such exemptions were built in, the fees would be reduced and, therefore, that the amount of money that is raised by the tax, which contributes towards the Scottish budget, would be reduced. How would you counter that?

Karen Campbell: I do not have the answer to that, I am afraid. I appreciate that the committee needs to think about the revenue stream, but that needs to be looked into in closer detail than an off-the-cuff comment from me today.

James Kelly: Jonathan?

Jonathan Gordon: It is a difficult consideration, which is why it should not be done quickly. That is an argument for allowing the tax to bed in a bit before substantial changes are made, which is what RICS suggested.

Exempting new-build properties was one of the original exemptions that I put into the original RICS consultation response when the additional dwelling supplement was introduced. However, that could be targeted at specific areas or specific types of property. There is an issue in building blocks of flats. The builders will build more, and the prices might rise if the demand is there a little bit, but the evidence needs to be investigated. I have not seen any investigation of that specific potential exemption. There is a good chance that the stimulation of the economy would more than offset the loss of tax revenue, which would benefit the Government and the country.

The Convener: That leads in nicely to Neil Bibby's point; he is interested in issues for first-time buyers.

Neil Bibby: There has been a lot of discussion about the impact on the higher end of the market, but I want to ask about your thoughts on the impact on first-time buyers. In evidence, Your Move said that the number of first-time buyer property sales in Scotland has increased more than it has in the UK. We also know that 9,700 prospective owner-occupiers benefited from the policy of the nil-rate LBTT threshold being set £20,000 higher than that for UK SDLT.

What impact do you think that that has had on first-time buyers? What do you think will happen in the future?

Karen Campbell: Shall I kick off? It seems to be ladies first this morning.

The focus of the discussion has been on the distortion at the higher end, but we must not forget how good a thing the level of LBTT has been for first-time buyers. Some of the stats on that, and on the reduced tax take from the majority of people in Scotland, are to be welcomed and celebrated.

However, based on discussions that our people on the front line—the sales people—are having with first-time buyers, I do not think that it is even entering their consciousness that they are saving money. They are not familiar with the old system and they are unaware of the tax. People are often unaware of the tax until they buy a home. We should do all that we can to support first-time buyers, because they are the lifeblood of the housing market, but the tax does not influence their decision. There are more powerful factors, such as the supply of the right kind of property and mortgage availability. It could be the mortgage market that has really pushed that part of the sector, because it has been much easier to access a mortgage in the past couple of years. That does not explain the Scottish differential, which I do not have any intelligence on.

Jonathan Gordon: I am not sure what benefit the level of LBTT is for a first-time buyer if they are saving £1,000 in tax and spending £10,000, £20,000 or £30,000 extra on the property because of the increase in demand and the price of properties. The market has been changing a lot as we recover from 2008-09, so it is hard to attribute to the tax an effect on anything in the market.

In the market that I am looking at in Edinburgh, there is more competition among first-time buyers and they are paying higher prices for properties, so they have more debt. They have more cash to buy a property because they do not have to pay the tax, but they are putting themselves further into debt for a higher house price. Overall, the view of RICS is that the level of LBTT has been a good thing, but more research needs to be done on the level of debt among first-time buyers and the price that they are paying for properties.

The Convener: That is an interesting area. A couple of weeks ago we heard evidence that showed clearly that the market for first-time buyers at the lower end in Scotland was increasing significantly more quickly than the same market south of the border. Obviously, something is going on if the economic conditions are similar, and there is a shortage of housebuilding throughout the United Kingdom, and yet south of the border the number of transactions is significantly lower for first-time buyers. What is the difference? What is the issue if it is not the fact that first-time buyers in Scotland are not paying tax? Does anyone have the answer?

It seems not. Okay—that is fair enough. There seems to be an obvious relationship to the tax not existing for first-time buyers; it is a comparator with south of the border.

Jonathan Gordon: House prices are higher—

The Convener: In Scotland?

Jonathan Gordon: No. In England.

The Convener: I know. I realise that.

Jonathan Gordon: It is a different base level. It is not comparable.

The Convener: Fair enough.

Adam Tomkins (Glasgow) (Con): It is my role this morning to play sweeper—

The Convener: I apologise. Neil Bibby had a supplementary and I got in his way. Forgive me, Adam.

Neil Bibby: The Scottish Property Federation has said:

> "we are not aware as yet of any plans for the introduction of the three yearly non-residential lease reassessments. We are concerned this could prove to be a significant administrative challenge to Revenue Scotland."

How well has Revenue Scotland handled the new tax? Is it adequately resourced to do the job?

David Melhuish: We think that Revenue Scotland has bedded the tax in well—I think that we say that in our submission. Our committee has reported only a couple of issues with the tax. The committee is more concerned about the commercial side than the residential side, if I am honest. There are very complex transactions on the commercial side and it is not always clear how the lawyer should implement their end of the administration of the tax. That is probably the only area where some anecdotal concerns have been raised. It sometimes takes a lot longer to get an answer from Revenue Scotland on technical questions—or to get an answer at all—than it does from Her Majesty's Revenue and Customs, which to be fair has a lot more experience of SDLT. That is the only concern there.

The point you raised is that the legislation will require people who pay the tax to reassess, every three years, the rents that they have paid the least duty on. There used to be a similar system under SDLT, but the reassessment was only every five years. In truth, that regulation was not really implemented as such by either the market or, I would argue, HMRC. We simply do not know at this stage how it will work.

If you are a business that has taken on a 10-year lease, you pay your lease tax up front as soon as you take that property on lease. If you read the legislation, the suggestion is that, three years down the line, you reassess the rents and go to Revenue Scotland and tell it whether the rent has changed. I am a bit dubious at this stage, because there do not seem to be any plans for how that will work in administrative practice. There are thousands of lease events every year in Scotland and I do not think that a business will recollect, two and half years into its tenancy and having paid its tax three years beforehand, that it now has a statutory requirement to reassess its rent and get back in touch with Revenue Scotland. It is a heads-up marker, Mr Bibby. There is an admin point there that needs to be addressed.

The Convener: I apologise again for interrupting Adam Tomkins. It was rude of me.

Adam Tomkins: It is no problem. I think that it is my job to play sweeper today. I will ask the panel a couple of questions that have not really come up, although one of my questions relates to what Neil Bibby has just asked about. Perhaps we can start there.

One of the things that we are concerned with, as a committee, is looking forward to the next few years, when more and more fiscal devolution will be coming to the Scottish Parliament. Land taxes, including LBTT, have been in the vanguard of that fiscal devolution. Do you have any reflections that you want to share with us about the way in which the administrative structures of LBTT are working? Are there things that we should guard against repeating in the design of future taxes, or things that have been good practice that we should seek to encourage? I was thinking, in particular, of the relationship between Revenue Scotland and the Scottish ministers, or the relationship between Revenue Scotland and HMRC.

David Melhuish: This is perhaps just an addition to the answer that I have just given. Members tell us that, when they put questions to Revenue Scotland, there is sometimes uncertainty at the RS level about whether the questions are for it or, in policy terms, for the Scottish Government. In England, the same problem does not really arise because it is HMRC. There are some issues around the interpretation of legislation and administration.

Adam Tomkins: Can you give an example?

David Melhuish: I will have to write to you on that. It was a broad reflection on what members have felt. Again, I would have to add the caveat that HMRC's experience of the mechanics of SDLT in legislation is a lot longer. Broadly speaking, the tax has bedded in well, in administrative terms.

The Convener: It would be useful if you could write to the committee with some examples, as you have suggested.

Adam Tomkins: I have one other question—it might be a question that the panel does not want to or cannot answer, which would be fine. In the previous evidence that we took in this inquiry—I think that it was two weeks ago—we heard from the Law Society of Scotland in particular that there was a concern that, as the witness put it, we tax by statute and untax by extra-statutory concession.

My question is about whether LBTT is too complex and, if it is, whether that complexity is adequately or fairly reflected in the statute book or whether it is hidden in those rather curious extra-statutory concessions. That may relate to what David Melhuish just said about Revenue Scotland's struggle to answer questions on the operation of the tax, because those operational questions run into policy questions quite quickly. Have you come up against that concern in any of your professional dealings with the tax so far?

11:15

David Melhuish: The short answer is yes, it is a complicated tax—it is a complicated transactional system. The intention of the Land and Buildings Transaction Tax (Scotland) 2013 was to keep the system as simple as possible, but inevitably there was quite a lot of bleed-through from the existing stamp duty land tax provisions, which did not always chime well with LBTT. It would be fair to say that the complexity is not wholly represented on the face of the 2013 act as we have it now.

Adam Tomkins: Does that cause you professional problems in practice or is it just an academic problem?

David Melhuish: For most transactions, if you took a whole number, it is probably more on the non-domestic side of matters and, yes, of course it leads to complications. A lot of investors are used to having a UK-wide policy and that is still feeding through into how we administer the new tax at this stage.

However, we are probably talking about quite specific and technical commercial transactions. I do not think that it has been such an issue on the residential side.

The Convener: I thank the panel members for coming to give us evidence. As we said at the beginning, we need to do some reconciliation work on the figures and we will do that. Once that has been done, either by Registers of Scotland or Revenue Scotland, we will share the reconciled figures with the panel members so that they have the same information.

The committee's next meeting will be on Wednesday 5 October, when we will continue to take evidence in the same area. As we have only one item of business in public today, we now move into private session.

11:17

Meeting continued in private until 11:29.

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