



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# FINANCE COMMITTEE

Wednesday 2 May 2012

Session 4

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**Wednesday 2 May 2012**

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**FINANCE COMMITTEE  
13<sup>th</sup> Meeting 2012, Session 4**

**CONVENER**

\*Kenneth Gibson (Cunninghame North) (SNP)

**DEPUTY CONVENER**

\*John Mason (Glasgow Shettleston) (SNP)

**COMMITTEE MEMBERS**

\*Gavin Brown (Lothian) (Con)

\*Mark McDonald (North East Scotland) (SNP)

\*Michael McMahon (Uddingston and Bellshill) (Lab)

\*Elaine Murray (Dumfriesshire) (Lab)

\*Paul Wheelhouse (South Scotland) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Ann Bain (Angus Council)

Sam Baker (Scottish Government)

Brian Cook (North Lanarkshire Council)

Marianne Cook (Scottish Government)

James Gray (Shetland Islands Council)

Jamie Hamilton (Scottish Government)

Anita Jamieson (Shetland Islands Council)

Stuart Law (Scottish Government)

**CLERK TO THE COMMITTEE**

James Johnston

**LOCATION**

Committee Room 1



## Scottish Parliament

### Finance Committee

*Wednesday 2 May 2012*

[The Convener *opened the meeting at 10:00*]

### Decision on Taking Business in Private

**The Convener (Kenneth Gibson):** I welcome everyone to the Finance Committee's 13th meeting in 2012. I remind everyone present to please switch off BlackBerrys, pagers and mobile phones.

Agenda item 1 is to decide whether to consider in private a draft report on the financial memorandum to the Local Government Finance (Unoccupied Properties etc) (Scotland) Bill at future meetings. Do members agree to take that in private?

**Members** *indicated agreement.*

## Local Government Finance (Unoccupied Properties etc) (Scotland) Bill: Financial Memorandum

10:01

**The Convener:** Item 2 is further evidence on the financial memorandum to the bill. I welcome our first panel of witnesses: Ann Bain from Angus Council, Brian Cook from North Lanarkshire Council and—by videoconference and the wonders of technology—James Gray and Anita Jamieson from Shetland Islands Council.

No opening statements will be made, and we will go straight to questions after members have introduced themselves for the benefit of the people in Shetland, who might not be able to see their nameplates.

**John Mason (Glasgow Shettleston) (SNP):** Have you introduced yourself, convener?

**The Convener:** I am sorry—I am the convener, Kenneth Gibson.

**John Mason:** I am the deputy convener, John Mason.

**Elaine Murray (Dumfriesshire) (Lab):** I am Elaine Murray, the Labour MSP for Dumfriesshire.

**Paul Wheelhouse (South Scotland) (SNP):** I am Paul Wheelhouse, a Scottish National Party MSP for South Scotland.

**Gavin Brown (Lothian) (Con):** I am Gavin Brown, a Conservative MSP for Lothian.

**Mark McDonald (North East Scotland) (SNP):** I am Mark McDonald, an SNP MSP for North East Scotland.

**Michael McMahon (Uddingston and Bellshill) (Lab):** I am Michael McMahon, the Labour MSP for Uddingston and Bellshill.

**The Convener:** Without further ado, I will ask each witness—and the team of witnesses in Shetland—a question, then I will open the meeting up to committee members and we will take it from there.

I note that Angus Council expressed in its submission concern about the cost of

“the monitoring of long term empty properties given the dispersed nature and locations of ... long term empty properties”

due to the rurality of Angus. You are concerned that such monitoring might impose additional costs on Angus Council relative to other local authorities. Will you expand on that?

**Ann Bain (Angus Council):** Angus is a mixed area with quite a high incidence of rural properties. Property inspections will probably be required to police the new arrangements for the levy properly. In an urban area, a number of visits could be made in a day but, in Angus, property inspections could involve significant round trips by officers. We have empty properties that are located way up a glen at the end of a farm track, for example. Such dispersal means that inspections cannot be made in a bad winter, when the timescales for doing such work are limited. The cost of mileage and the time affect the number of properties that can be inspected.

We still have to do a bit of analysis to get a proper handle on the number and locations of difficult properties, so that we have a proper assessment of the cost, but policing the arrangements properly will undoubtedly place a burden on rural authorities, because that will require property inspections that would be much easier for an urban authority to do.

**The Convener:** You have still to look at the fine detail, so you do not have a global sum for the additional cost, but do you have any idea of the relative cost? Will a property inspection in Angus be twice or three times the cost of an urban inspection or will it cost 50 per cent more? Do you have a rough approximation of the additional costs relative to more urbanised communities?

**Ann Bain:** It is difficult to be accurate because it depends on the size of the council and the number of empty properties that it has. For example, in Angus we have about 1,000 long-term empty properties. A significant proportion of those will not be in town centres—they could be on farm estates or in rural locations. Because of the number of miles that a visiting officer might have to travel, a rough estimate is that it would take us twice as long to cover our inspections as an urban authority.

**The Convener:** And that would cost Angus several tens of thousands of pounds.

**Ann Bain:** Yes, over the piece, if we were to do it robustly and carry out a large number of property inspections. We would not inspect a property only once—we would have to return to it periodically—so it is not a one-off cost but a long-term cost, if we continue to monitor those properties over a long period.

**The Convener:** I asked Ms Bain that question, but Mr Cook and the witnesses in Shetland can feel free to comment on this aspect of the bill. Rurality is a factor in North Lanarkshire, though perhaps less so in relative terms, and it is a factor in Shetland.

**Brian Cook (North Lanarkshire Council):** I agree with Ann Bain that there will always be an

on-going cost of operating and implementing the scheme. In my authority in particular, there are a number of urban conurbations, so the time involved should be less for us. Depending on the number of inspections that we have to undertake, it requires one or two members of staff.

**The Convener:** North Lanarkshire's submission says:

"There appears to be no recognition that the focus of the proposal is tax-raising rather than determining the need for funding to bring empty property into use and then assessing how to release/raise the necessary level of funding. In essence the tax is possibly a penalty rather than a solution to the problem."

Will you talk us through your concerns in that regard?

**Brian Cook:** We have a team that looks at how we can assist owners of properties in bringing those properties back into use. I would view the bill's proposals more as a penalty on those owners whose properties are not in use. We have not identified that we need, say, £0.5 million or £5 million to assist with the delivery of those properties back into use. What we will generate is purely a number based on whether we have 40, 400, or 4,000 empty properties in the local authority area.

The other aspect touches on a point that the convener was discussing with Ann Bain. There will be a cost involved in bringing in the scheme for a small number of properties. I am not entirely convinced that the amount of money that will be realised from the additional tax will be worth it in relation to the particular needs across local authorities.

**The Convener:** Is one of the difficulties with the bill the current economic climate? If the economy were more buoyant, might the situation be different, or would your concerns apply regardless?

**Brian Cook:** Some of our concerns would apply regardless. The tax—non-domestic rates or council tax—is a general tax levying rate to fund a range of services for service-delivering authorities. This proposal properly tries to improve communities and bring unused properties back into use. Because of that, it is targeting a much smaller number of properties. The difficulties there are exacerbated in the current climate, in which some properties are perhaps not as economically attractive to bring back into use, but I suspect that some of our concerns as an authority about the disparity between what we raise and what is needed would continue to exist even if there were a bit more buoyancy in the economy.

**The Convener:** One of my concerns about empty properties is that, perhaps pre-recession more than now, people who have owned

properties have owned them for speculative reasons rather than with a view to putting them into productive use. That concern was shared by a number of colleagues around the table. How real is that situation at the moment, for example in North Lanarkshire?

**Brian Cook:** It appears from our property database that a large number of the empty properties reside with the local authority in its role as landlord and with a number of registered social landlords. Neither the local authority nor the RSLs are in it for speculative purposes.

There will be an element of what you describe on the private sector side. In recent history—over the past five to 10 years—people have bought properties in the expectation that they will grow in capital value and that they will be able to achieve a rental income from them, but now people cannot do that because it is too costly. I do not think that it is a huge problem—I do not think that private sector properties account for a significant percentage of our empty properties, but they will certainly account for a percentage of them.

**The Convener:** Do any of the other witnesses wish to comment?

**Ann Bain:** In Angus, our greatest areas of housing need are Monifieth and Carnoustie, partly because of their proximity to the Dundee commuter belt and partly because of the cost of land and the costs of building and buying a house in those areas. Those are the areas in which we have the smallest number of empty properties. The speculative holding of empty properties does not manifest itself where there is a need. In other words, we have no evidence to say that that is happening in Angus. Where there is a need and a high demand for property, there is very little empty property. In such areas, speculators are not holding on to property—they are getting it on to the market and letting it or selling it.

The issue that we have is that a significant number of properties are probably not up to a marketable standard and the individuals concerned do not have the funding to bring them up to that standard. As I understand it, I do not think that there is evidence in Angus that people are holding on to properties to see whether there will be a rise in the market.

**The Convener:** As no one from Shetland Islands Council wishes to comment on that issue, I would like to move on to a question that is specific to Shetland, which is about section 4, on the abolition of housing support grants. I note that you say in your submission that Shetland Islands Council would not support the bill

“unless satisfactory transitional arrangements were put in place.”

You go on to say:

“without knowledge of the details of any proposed transitional arrangements, it is difficult to answer fully on this point. The absence of any transitional arrangements will result in a direct impact on 1800 tenants”.

Will you say a bit more about that? What do you want the Scottish Government to do?

**Anita Jamieson (Shetland Islands Council):** We are looking for some recognition that the debt came about as a result of the pressure to get oil into Sullom Voe back in the 1970s. At that time, the islands' population increased by 40 per cent and we ended up borrowing £50 million on the housing revenue account across two decades. Some years later, we face the prospect of 1,800 tenants shouldering that debt burden. If we do not have some form of transitional arrangements based on the current level of housing support grant, that will have a direct impact on the service that we provide to those tenants or on the level of rents, which are already the second highest in the league table in Scotland.

**The Convener:** What level of transitional relief are you looking for? At the moment, about £871,000 of support is provided, which will decline year on year. What help are you looking for to mitigate the difficulties that the abolition of housing support grant may cause you?

**James Gray (Shetland Islands Council):** The housing support grant was never going to be enough to get the housing revenue account out of the situation that it is in. Technically, we are almost on the brink of saying that it is insolvent. It is in an extremely difficult situation—40 to 45 per cent of the income that is generated from the rents of the 1,800 tenants goes on repayment of the debt and the interest on that. The housing support grant is, in essence, a crutch to allow us to continue to operate the account. The grant has been diminishing, which has caused difficulty, but if it is removed and nothing is put in its place, we will be in a very difficult situation.

10:15

We have to bring our homes up to a certain standard and meet national targets. We have severe waiting list problems, and homeless presentations are high for such a small place. Demand for housing is high because the oil industry is still here. Therefore, we need to try to build houses. We do not have a big private sector, because of the costs that are involved in building here, and there is only one housing association. We do not have neighbouring local authorities, as is the case on the mainland of Scotland. People cannot move to Orkney and then commute to work in Shetland. There is a problem, but we are hamstrung in that we cannot even consider

building housing. We are struggling just to maintain the current level of housing.

Our point is that, although the removal of the housing support grant is a problem, the grant was never going to be the solution for us in the first place. We are looking to work with the Scottish Parliament to find a solution to the debt problem that has arisen since the big boom in the 1970s, which has never been fully addressed.

**The Convener:** The issue is that there are 32 local authorities in Scotland, but Shetland is the only one that benefits from the housing support grant. The policy memorandum suggests that the council should consider using its reserves to mitigate the effect. What is the current level of your reserves?

**James Gray:** In total, at 31 March, the reserves were sitting at about £196 million. However, we need to break that down. A reserve fund has been built up from oil money that the council has generated, which can be used for any area of council spend. The balance on that reserve account is about £65 million. The remaining £130 million is general funds money, which in essence is council tax payer money that we cannot use to prop up the housing revenue account, as that is not allowed under statute. The first call on the £65 million that is available to us must be from the decommissioning of the Sullom Voe harbour that generated the money. We estimate that the cost of decommissioning could be up to £25 million. We are left with about £36 million. That is committed expenditure, because we are in the process of trying to reduce our expenditure levels to bring them more in line with the income that we generate. Therefore, there is very little flexibility in our reserves to address the situation.

**The Convener:** I am sure that colleagues will wish to ask further questions on that.

I will open up the session to colleagues. Questions can of course be put to any of the witnesses. The witnesses should feel free to let the questioner know if they want to answer a question that is not specifically directed at them.

**Paul Wheelhouse:** All three local authorities that are represented have an element of rurality, so you will have absentee landlords, second properties and holiday homes in your areas. That presents a particular challenge for rural authorities. We have touched on the cost of monitoring the number of empty properties in Angus and North Lanarkshire. Angus Council has also made points about the assumption of a 100 per cent collection rate and the difficulties of tracing property owners. Sometimes, the council might know that there is a vacant property but not who owns it. I ask the witnesses to expand on the difficulties with achieving a 100 per cent collection

rate. What do you recommend as the means to address those difficulties?

**Ann Bain:** Angus Council is one of the top-performing councils on collection in Scotland, but we do not collect 100 per cent of council tax. Last year, we collected 96.7 per cent in year, which is a very good collection rate. The difficulty with a 100 per cent levy is that it will be perceived by some taxpayers as punitive and unfair—there is no doubt that it represents a big increase in the amount of debt that they will incur. That may incentivise people to try to evade the charge but, for those who do not, there are significant issues relating to the financial situation out in the real world—people just do not have an unlimited amount of disposable income to meet increased debt. I think that the charges will be more difficult to collect and could impact on our wider collection performance.

If someone has a long-term empty property, they may well not be resident in the area or even in Scotland. That makes collection more complex because the system of recovering council tax in England, for instance, is different. We would have to instruct diligence in the English courts against the person and get a decree against them, which would make life more complicated. Some people who have properties here do not live even in the UK—they have moved away and perhaps cannot sell their property or the property is in disrepair. They already object to paying council tax on the property because they do not perceive that they are receiving services for the charges in that situation.

An additional levy will be more difficult to collect because many taxpayers do not see themselves having a choice about the situation. Second homes are a different matter, as people make the choice to have a second home that they enjoy as a leisure resource. People who have properties that are empty and who are not in a position to sell them in the current market or who need to repair them to bring them up to standard will not see that as a choice—they feel burdened with those properties. That will make the collection of the additional levy more difficult. A number of taxpayers may not live in the area, which means that the normal arrangements that a council has with its sheriff officers to enforce recovery will not apply. That will incur extra cost and time, especially if we have difficulty in tracing individuals. All of that will add to the general difficulty.

In Angus, we have only just—from April—reduced the council tax discount for long-term empty properties to 10 per cent and we feel that we need to monitor the impact of that before we can think about introducing additional charges. We want to see whether that discount reduction



impacts on our recovery rate. Since the introduction of the legislation several years ago, we have offered only a 10 per cent discount in council tax on second homes and our collection performance for those properties is as good as, if not better than, the average collection rate. What happens over the next year with the recovery of council tax on long-term empty properties, for which we have increased the charge by 40 per cent, will inform my view about whether we are likely to experience difficulties in collecting the additional levy.

**Paul Wheelhouse:** You may be aware that the Land Registration etc (Scotland) Bill is looking to tighten up the registration of all landholdings, which should reduce the number of properties whose owners we do not know.

**Ann Bain:** Absolutely. That will help us to trace people. However, if they are not resident in this country, there will still be an issue even if we know where they are, and there will be costs attached to accessing the land register. It is all extra cost.

**Paul Wheelhouse:** Do you agree, in principle, that we have a problem with empty properties? I appreciate what you say about the housing market in Monifieth and Carnoustie being fairly buoyant, leading to a low number of empty properties in those areas but, in other parts of Angus and other local authority areas, empty properties are a blight on communities. They bring a depressed atmosphere to those areas when they are not being used, and there may be a shortage of properties to meet the housing need. There is a need to step in and do something to bring those properties back into use.

**Ann Bain:** There are issues in some areas, and no one could disagree with the aspiration of bringing properties into wider use. However, in the context of Angus the bill is perhaps a bit of a sledgehammer to crack a nut. A significant number of our properties are not in a state in which they could be released on to the market. We need to address that if we are to achieve anything meaningful.

Seventy per cent of empty domestic properties in Angus are in bands A and B. We need to do a lot more research on where they are, why they are empty and what is preventing people from bringing them to the market to sell. We do not gather that information, so a lot of work needs to be done before we can make statements about those properties. If we charge owners an extra 100 per cent, we might drive many of them into debt. They will not necessarily have the means to bring the property to the market. However, if we could use the additional revenue that is raised to incentivise owners, there could be a positive outcome.

**Paul Wheelhouse:** Do Mr Cook or the witnesses in Shetland want to comment?

**Brian Cook:** As Ann Bain said, we would not collect 100 per cent of the tax. The bill would also introduce an incentive to owners to avoid the tax, given that people could be paying just under three times what would be paid if a single person was registered against the property. The average band E council tax in Scotland is about £1,000, so a single person might pay £750, but the charge would be £2,000 if the person was registered against a long-term empty property and the 100 per cent levy was applied. Certain individuals will be incentivised to misrepresent the occupancy of properties. That takes us back to considering how often authorities will have to visit properties to evidence that they are long-term empty and should bear the additional burden.

Beyond that, there will be the normal collection difficulties in relation to identifying long-term empties. Most of North Lanarkshire's towns probably do not have the numbers of second homes or holiday properties that some authorities have, although there will be such properties in some areas.

**Paul Wheelhouse:** Given the nature of the problem that we face, what do you recommend that we do instead of taking the approach that is taken in the bill? We have limited power to drive change and provide a financial incentive for people to bring properties into use. Do the witnesses have constructive alternatives to offer, from their experiences in Angus, North Lanarkshire and Shetland?

**Brian Cook:** Local authorities put in place housing strategies, through which funding and resources can be channelled, to identify how to support owners to bring properties in communities back into use. Such an approach is preferable to one in which we make a minor adjustment in relation to a small number of properties on the council tax database. I would prefer the direction of travel to be through the housing strategy, to support authorities' aspirations for their areas.

**Ann Bain:** I agree. More support needs to be given to the people who would like to get rid of their long-term empty properties but genuinely do not have the means to do so. We need to try to identify and engage with those people much more proactively. There might be opportunities to use council tax as a trigger for such engagement. If someone makes contact to tell us that they want to claim an exemption or a discount, there could be a mechanism for engaging with them at that point, rather than waiting for a period of time to elapse and then hitting them with a big bill. However, such an approach would require significant funding and resource, which we do not currently have.

If we really want to change things, we should engage with owners as soon as a property becomes empty, if it looks as if it will be empty for some time. That is not an easy thing to do, but it is possible.

10:30

**Paul Wheelhouse:** Do the witnesses in the Shetland Islands want to comment?

**Anita Jamieson:** I echo what has been said by others. The number of empty properties is not a huge issue here. However, we would certainly support moves to incentivise people to return those that are empty rather than look to penalise them financially.

**John Mason:** I will start with the witnesses in Shetland. Can you clarify for me whether you want better transitional arrangements, or are you just opposed to the whole thing and do not really want it at all?

**Anita Jamieson:** It hinges on there being satisfactory transitional arrangements. To date, although we have had consultation and negotiations on that, we have had no detail about what any transitional arrangement might look like. There is a history of successive promises from Westminster Governments and through the stock transfer process that our debt would be written off. Obviously, to date, that has not happened.

The transitional arrangements could be the key to the acceptance of the removal of housing support grant, but we need to be clear that it is linked to a historical debt and that it is unfair to penalise the 1,800 current tenants in Shetland for a situation that arose because of the oil industry some years ago.

**John Mason:** I agree that it was unfair of Westminster to link stock transfer to debt write-off. Am I right in saying that you did not have a transfer from the council to a housing association?

**Anita Jamieson:** No. We were one of the pilot areas. We went through the process and got to the point of valuation, but we could not get the valuation agreed and we never proceeded to ballot. The process stopped at that point.

**John Mason:** On the transitional arrangement, would you look for a gradual reduction over five years rather than a quick cut-off?

**Anita Jamieson:** Ideally, we would look for it to be linked to the debt and to be awarded over a three to five-year period with a view to reducing the overall debt that we carry on the housing revenue account. That would be preferable to a phased-out approach.

**John Mason:** Last week we heard evidence, mainly from property owners, that focused on non-

domestic rates rather than on the council tax. I want to follow up one or two points from that evidence, one of which is the claim that a council would save money if a non-domestic property was empty rather than occupied. I asked them why they thought that there would be any saving. From the councils' point of view, would there be any saving?

**Ann Bain:** Are you asking about council-owned property?

**John Mason:** No. I mean private property, such as an empty shop. Would the council save anything if the shop was not occupied?

**Brian Cook:** I am hard pushed to see how a council could save anything in such a case.

**Ann Bain:** I cannot think how there could be a saving.

**Brian Cook:** Clearly, we would lose the rates income. However, the services that are provided to the community—waste uplift and so on—would continue in the general area. If there was a waste contract for us to pick up a shop's rubbish, we would have no rubbish to pick up if that shop was not operating. However, I would not say that that would be a net betterment to the council.

**John Mason:** That was my feeling, but I just wanted to clarify the position with you. The property owners were not able to substantiate their claim in that regard.

Some councils have made various suggestions, including that there might be more demolitions. The property owners suggested that, too. They said that they would be more likely to demolish commercial property that was perhaps not in great condition if we made the proposed change and that there would therefore be a shortage of property in the longer run. Is that your feeling?

**Brian Cook:** I apologise for making general comments again. There might well be more demolitions. If non-domestic properties are not fit for purpose and cannot be let or rented out, demolition might be a better outcome for the community as a whole. If nobody is going to invest in a property and it is going to be left to go to wrack and ruin, demolition might be a better and more appropriate outcome for that property. We have a similar situation in relation to the council tax and housing stock. For many years, we have had to make choices between renovation versus demolition and rebuilding in certain areas.

In the general marketplace, there might be some properties for which demolition is a better option. However, generally, the empty properties on the high streets of our town centres are empty not because of the threat of demolition, but because of the current economic climate in which people are not taking up those properties for

commercial ventures. There might be some demolitions but, off the top of my head and without real statistical evidence, I would have thought that they would be a relatively small percentage.

**Ann Bain:** I echo those comments. It is difficult to demolish a shop that is in a row of shops and leave a gap site on the high street. I do not think that many businesses will do that.

**John Mason:** A linked suggestion was that, if there is pressure to let, we might end up with less desirable tenants, whatever they might be. My gut feeling is that almost any tenant is better than no tenant, because an empty shop is a bad thing. That applies in parts of Glasgow and, I guess, Lanarkshire. I do not know whether your councils own property that you are trying to let out, but do you foresee a problem with such tenants?

**Ann Bain:** That depends on what one describes as an undesirable tenant. If the assumption is that there will be lots of, say, betting shops or pound shops, some people would say that those are undesirable, whereas others would be glad to have the high street occupied. It is a subjective issue. However, I suppose that most people would like a viable high street with occupied shops and premises rather than empty ones. The number of charity shops is often raised as an issue, but at least those shops are maintaining a presence on the high street.

**John Mason:** Another suggestion was that there might be a reduction in rental values for property owners—I presume because there is an extra cost—who would then appeal, which would lead to a lot of problems. Do you foresee that?

**Brian Cook:** At present, private sector landlords appeal their rates fairly often anyway. I do not think that the number who do so will double or treble. Naturally, there will be an additional cost to landlords if we increase the rates on their property for the time that it is empty. If the property is brought back into use, it will revert to the appropriate operating rate. As I said in relation to the previous couple of points, I do not think that the percentage will be significant. Landlords rent out property for a profit. The bill will increase the rates, with the intention of incentivising landlords to get property back into use. If property is available to let and is good property, the bill should, I hope, force or push them to do that. If the property is not good, as I said, the option of demolition might be there as the exception.

On the issue of less desirable tenants, I do not envisage that hordes of properties will be let to undesirable tenants. Properties might well be let to businesses that stay in them for a short period and go out of business. That might be undesirable to the landlord, but it is just a feature of the economy right now. Tenants of business premises, ours

included, do not normally move in, lay waste to the property while they are there and then leave. With the properties that we let, the issue invariably is that tenants get to a point at which it is no longer economically viable to run the tenancy, so they want to be let out of the lease or they shut down and leave. That is unlike the situation in the residential sector, in which people might well go into a house and do damage. That is not a problem to the same extent in the business sector.

**Mark McDonald:** Ms Bain, you said earlier that, in the context of housing, the legislation might be a sledgehammer to crack a nut.

Grant funding to maintain or repair private sector housing is at a premium. Has Angus Council pursued any innovative solutions? One solution that springs to mind, which has been floated in the past, is that councils could offer to undertake works for private landlords and owners in return for receiving a share of the equity in the property, so the council would get a receipt when the property was sold on. Has that approach been considered?

**Ann Bain:** I am not aware that it has been considered, although my housing colleagues will probably have more to say about that. We run a survive-and-thrive initiative to assist property owners with refurbishment; some funding for that is available at present.

My colleagues are currently considering how best to use the revenue that is generated through the affordable housing initiatives. They are examining a number of methods to release more homes on to the market. I am not aware of anything that is particularly new or based on the lines that you describe, but that is not to say that I am fully aware of everything that goes on in my housing service.

**Mark McDonald:** Sure—I appreciate that.

**Ann Bain:** I can find out for you and let you know, if you would like me to.

**Mark McDonald:** It would be interesting to see which other options are being considered to deal with the empty properties issue.

My next question is for Mr Cook, too. Flatted properties of mixed tenure can often be a particular challenge for local authorities in some areas with regard to dilapidation and other issues, particularly where top-floor properties are privately owned and other properties contain council tenants.

Are there examples in your councils of areas that are affected by empty properties? Such properties cause problems for the council, because it cannot go in and carry out works without having the permission of the private owner or landlord.

**Brian Cook:** Yes. Given the nature of the urban population in a number of our towns, and our closeness to Glasgow and Edinburgh, we have a range of such properties. Where there are empty properties it can be difficult at times to undertake works on the whole building, because it is not easy to get approval from landlords.

The improvements to registration should help with some of that, but it can still be difficult—especially where there are absentee landlords—to take developments forward.

**Mark McDonald:** North Lanarkshire Council's submission mentions the consequences for council tax of void properties and the fact that the HRA account would essentially have to prop up any bills that came in. It also mentions the possibility of exemption.

Do you agree that those authorities that have taken action to bring down their void rates might object to the fact that, in effect, other authorities would have their empty properties subsidised or exempted by the Government rather than taking action to reduce their void rates?

**Brian Cook:** Again, my housing colleagues are better versed in that. Across most of the local authority sector, we have been addressing the issue of voids for a number of years by trying to reduce them, but we will always have void properties.

The issue is that, whatever the number is—X hundred empty properties—the landlord, which is the council, will bear an additional charge. That will be funded ultimately from the housing revenue account, so it will be funded not by the council but by the remaining tenants. Those tenants are not speculative landlords, or landlords of any nature, who have not let properties, but they will bear the ultimate burden of that additional charge on the HRA account.

10:45

**Mark McDonald:** My next question is for colleagues from Shetland. You raised the percentage of the HRA that goes towards funding the debt. Are you aware of how that compares with the situation in other small authorities and the other island authorities, in terms of the housing to debt ratio?

**Anita Jamieson:** I am not aware of that as a ratio, as such. Obviously, our comparators are Orkney and the Western Isles. The Western Isles went through the stock transfer process, so it no longer has an HRA. Orkney had no debt until recently, when it started a new-build programme. Its average debt has gone up to somewhere in the region of £14,000 to £15,000 per house, while ours is currently sitting at £25,000-plus.

**Mark McDonald:** On the issue of reserves, you said earlier that Shetland Islands Council has around £196 million in its global reserves, of which £130 million is the general fund reserves, which you cannot touch for housing. Have I got that right?

**James Gray:** Yes.

**Mark McDonald:** From the non-flexible reserves, you say that you need to earmark £25 million for oil and gas sector decommissioning, and that around £36 million is committed to bringing the council's budgets more into line. Would that be committed against the general fund?

**James Gray:** Yes.

**Mark McDonald:** Why, if you have £130 million in your general fund reserves, are you using £36 million from the flexible reserves to bring the general fund budgets into line rather than the reserves that are linked to your general fund and cannot be used in a flexible manner?

**James Gray:** The general fund reserves are split between a revenue element and a capital element. There is more than £100 million in the capital fund at the moment—I do not have the exact figures to hand. It is not that we are looking to use the most flexible fund to fund general fund expenditure; it is just that the majority of the rest of it is tied up in capital fund money.

**Mark McDonald:** Okay, so if £100 million is tied up in capital money, that leaves you with about £30 million of general fund revenue reserves. How much of that is committed at the moment?

**James Gray:** About £10 million is the housing repairs and renewals money, which is used to top up repairs and involves expenditure to the HRA; there is a fund that is used to repair the tugboats that operate at the Sullom Voe site; there is a general repairs and renewal fund; and there is also a small insurance fund. That is essentially it.

**Mark McDonald:** You are talking about using that money towards the HRA. In your earlier evidence, you indicated that that money could not be used for the HRA.

**James Gray:** That small element involves HRA repairs and renewals, which is being depleted in order to pay back the interest on the borrowing that we currently have on the HRA.

**Mark McDonald:** Okay—I hope that we are talking about the same sum of money. I am not sure that what you have just said tallies with what I heard earlier, but I could be wrong.

How much of the £196 million in your reserves is uncommitted expenditure that you have available?

**James Gray:** We really do not have anything that is sitting there with no purpose. The money is all planned to be used. I do not have the detail of what it is for, but I could provide that to Parliament if you would like it.

**Mark McDonald:** Given what we have been told with regard to the suggestion that you could use reserves, it would be helpful if we could have some detail of what your current reserve levels are, what they are allocated against and how flexible or otherwise particular elements of your reserves are. That would be helpful to the committee's deliberations.

**The Convener:** In its submission, Shetland Islands Council talked about a debt burden of approximately £40 million on 1,800 tenants, which is about £20,000 per tenant—you said £25,000 today, but from my calculations the figure is about £22,500. You have reserves of £196 million. Do you have an income stream that adds to that each year? How much money goes into the reserves each year, if any?

**James Gray:** The income that led to our having such a high level of reserves principally came from business rates. Before we had the national pool, Shetland was able to retain rates and was getting in the region of £30 million a year. The reserves built up historically in that way. We still operate the harbour up at Sullom Voe, although it has reached its peak and is starting to decline. The income that comes from that is an additional stream. Our core income stream is down to about £3 million this year—I do not have the figure to hand, but I can get it to you.

**The Convener:** Are the reserves increasing by £3 million net, or is it just the income stream that is £3 million?

**James Gray:** The income stream is about £3 million per year.

**The Convener:** Thank you.

**Elaine Murray:** An issue that has been raised is the lack of formal consultation on or business and regulatory impact assessment of changes to the empty properties rates relief regime, because they were announced as part of the budget. Few people could disagree with the policy intention to bring empty properties back into use, whether they are commercial properties or empty homes, but it has been suggested that there have not been adequate opportunities for local authorities and businesses to feed into the process, to ensure that the estimates in the financial memorandum are accurate. What do the witnesses think?

**Ann Bain:** I do not think that in Angus we have significant concerns about the process. The changes were signposted.

On the estimates, I think that the number of empty properties in Angus is understated. That is to do with the small business bonus. I think that a lot of ratepayers do not tell us that a property is empty, because they are getting 100 per cent relief anyway, so they just see that there is no change to their bill. That is an issue, because the figure for Angus, which is only 150 empty commercial properties, is probably significantly understated. The amount that the person is charged, which is zero, is probably correct. In other words, they are getting 50 per cent rates relief and 50 per cent small business bonus, because of how the reliefs are structured. The bottom line is that the person has nothing to pay, so if the property is empty they probably do not bother to tell us, because it makes no difference to their bill. That issue perhaps has not come out in consultation.

**Elaine Murray:** People who do not declare that their property is empty could be fined £200. Could that in any way cover the costs of investigating the position?

**Ann Bain:** I think that that penalty relates to council tax and not to non-domestic rates.

The small business bonus will absorb the reduction in rates relief if the thresholds stay the same. I wanted to make the point that the extent of empty properties is underestimated, because of the small business bonus. I do not think that that will ultimately alter the balance of what people have to pay; it is just that estimates are based on the systems and records that we have. I certainly think that there are more than 153 empty business premises in Angus. However, I have no serious concerns about the timescales that we were given for input into the consultation.

**Elaine Murray:** Do the witnesses in Shetland think that they had enough notice of the potential impact on their council to be able to feed that back to the bill team?

**Anita Jamieson:** Yes.

**Elaine Murray:** I am interested in what has been said about the interplay because other witnesses have made the point in evidence that the interplay with other forms of tax relief is not really taken into consideration in the financial memorandum, although the small business bonus is clearly one of the forms of tax relief that will have an impact on how much is brought in.

**Ann Bain:** The small business bonus is the biggest element because it is likely to offset a lot of the reductions in empty property relief for smaller businesses. It is difficult to estimate that properly at the moment without much more detailed analysis of the rateable values of all empty subjects and how the reliefs work with each other. It just muddies the waters and means that

we find it difficult to get clarity about the impact of the changeover and the additional revenue to be raised.

We have only 20 empty council properties, for example, and they are not commercial properties, so the cost is not going to have a terribly hard impact on us. Obviously, any extra charge is unwelcome at the moment but ours will be relatively small. The problem is more to do with the difficulty of getting a true handle on what additional revenue we will be left to collect when the small business bonus kicks in to soak up the taking away of the empty property rate relief. A bit of clarity is needed around those estimates.

**Elaine Murray:** I was also quite struck by what you said about the potential difficulty in locating owners. A number of commercial properties seem to have been bought up many years ago and, as the convener said, an issue arises when that happens. Certainly, pension funds and others seem to have bought up properties in small towns in my constituency where those property owners are not located and it is difficult to pursue them to make them fulfil their obligations. Indeed, there is a small home in a village in my constituency that has water pouring out of it. People have been trying for years to locate the owners and get them to do something about it and, although we know who they are, we do not know where they are and we have not been able to get them to rectify the issues with that property.

Are there other approaches that we could take? For example, should we be looking at making it easier for councils to take possession of empty properties that have such problems?

**Ann Bain:** The difficulty is that if a council takes possession of a property, that puts a burden on the council to do something about it. For example, the council needs funds to be able to remedy any problems. Presumably the council could pass on the costs to the owner, but if they cannot be found, in practice the council will not be reimbursed. I think that councils already have powers to take action in difficult circumstances.

A point that touches on this whole area is that the change in empty property relief might encourage owners to let their properties to people who are not as financially robust as they might be. In other words, the checks that an owner puts in place to make sure that a tenant can pay their rent and rates might be lessened because the owner is anxious to get someone into the property. That could have undesirable results. If a business is not viable, it is likely to go out of business relatively quickly, leaving unpaid debt. High tenant turnover, with people moving on quickly because their businesses have not been successful, leaves councils trying to track down and collect debt from

tenants who are not there any more and who might not have any assets.

The general financial climate will impact on a business's success and if a landlord decides that they really need to get a tenant into a property, they might be less robust in checking out their tenants than they would otherwise have been.

**Gavin Brown:** In effect, Angus Council has answered this question for its area, so I turn to North Lanarkshire. Do you have an idea of what the cost to the council of the business rates on the empty commercial properties that it owns will be if the bill is passed?

11:00

**Brian Cook:** Off the top of my head, I would have to say no. I would have to guess. I refer to a couple of points that Ann Bain made. If you are interested in that figure, I can go back to the authority and identify the number of empty properties and the likely additional charge. Off the top of my head, I think that we saw that the total would rise on the council tax side. We will have to give an indication of what things would be like on that side, but not on the non-domestic rates side.

**Gavin Brown:** That would be helpful. I do not think that the financial memorandum includes a specific figure for that. It suggests that the cost to councils will be nil or minimal, so it would help the committee's deliberations to find out what individual councils will have to pay.

Has Shetland Islands Council done similar work on commercial properties that it owns?

**Anita Jamieson:** Not that I am aware of. I am not sure of the extent to which the council owns commercial properties.

**James Gray:** We can look into it and provide the committee with our figures.

**Gavin Brown:** That would be helpful. Thank you.

Angus Council's written submission, which is very helpful, says:

"The Memorandum states that the Scottish Government do not expect councils to publicise any increases resulting from the proposals and that notification with the Council Tax annual bill would be acceptable."

The council appears to disagree with that. Will Ann Bain expand on that written answer?

**Ann Bain:** From a customer service point of view, it would be unacceptable to tell somebody when their bill hit the doormat that they were facing a 100 per cent increase in the council tax. I suspect that there would be a quite powerful reaction to that. We wrote to everybody in advance to warn them about our recent reduction

in the discount for second homes. People have to plan for financial commitments. We explained that the reduction was coming and gave people an opportunity to contact us to discuss the matter.

If a levy is added on to a bill of £1,000, the first instalment for people who pay by direct debit will be double. There are such issues. People would not react well to that approach, which would be totally unacceptable, especially if we are going to introduce penalties and obligations on people. A bill is not the place to explain that.

In the longer term, perhaps a press release would be needed and there would need to be changes in our internet information. We would write to everyone to explain that the council had decided to adopt a change, and we would perhaps have to give them the opportunity to tell us whether we had categorised their property correctly in advance. It is not acceptable not to tell people about such a significant change, which would bring obligations on them to tell us whether there was a change in the property's status, for example. There could be financial penalties if they did not tell us about that change. All of that would have to be explained properly. It would not be acceptable to the general resident of Angus to get a significantly increased council tax bill out of the blue without any prior warning. We would get a lot of criticism for that. It would be worth investing in an information exercise perhaps two or three months prior to bills hitting the doormats.

**Gavin Brown:** So your view is that, in order to uphold the standards that your council has to uphold, there would be a cost element, which has not been captured.

**Ann Bain:** Yes. It would not be huge, given the number of properties that we are talking about, but time and effort would still be needed, and there would have to be changes to the process. Obviously, we would have the postage cost and the staff costs for producing the information and dealing with the inquiries that the mailshot would generate. It would be wrong simply to assume that a taxpayer would be happy to get a new bill with no explanation for their charge increasing by £1,000 or so.

**Gavin Brown:** Do other councils share Angus Council's view? Would they have to have an information exercise or would they simply inform people when the bills arrived?

**Brian Cook:** I echo what Ann Bain has said. Because of the significant increase, there would be a much bigger thud when the bill hit the doorstep. I suspect that we would get similar representations and that there would be a groundswell of opinion if people's council tax increased, for the sake of argument, from £1,000 to £2,000. The same is true on the non-domestic

rates side. Businesses would find such an increase in their charges quite a significant surprise.

**Gavin Brown:** I put the same question to Shetland Islands Council.

**Anita Jamieson:** We echo what has been said; the situation would be the same here.

**Gavin Brown:** Again, my final question is for all three councils. As colleagues have touched on, there is broad agreement that empty properties—whether commercial properties or homes—can be a blight on the landscape and can be detrimental to a local community. From the evidence that you have seen and from your knowledge of your areas, do you think that the bill, as drafted, will have the effect of bringing more empty commercial properties and empty homes back on to the market?

**Ann Bain:** It is very difficult to be certain. As I have said, how our taxpayers react to the change in the discount will help to inform that. The penalty of an additional levy will definitely incentivise some people because, financially, it makes sense to avoid it.

However, I am not convinced that the bill will have as significant an impact as some would hope. The situation may vary from council to council—it will depend on the composition of the empty property. We need to do more research on the issue in Angus. If a significant number of empty properties need to be refurbished or repaired to bring them up to standard and the owners do not have the funds, imposing an extra cost will not necessarily produce the desired outcome. In the absence of financial support for such people, the bill may make it more difficult for them to spend money on bringing their property up to standard—in other words, it may have a perverse effect.

Up until now, we have not needed to understand the situation terribly well. I certainly want to put some resources into finding out why properties are empty and getting a clearer understanding of how long, on average, they remain empty for. Until we know all that, it will be difficult to estimate accurately the effect of the bill. There is no doubt that it will have some effect but, in some cases, it might be a perverse one, which would be undesirable.

**Brian Cook:** As has been said, a number of properties might be owned by investment companies, pension funds and so on. I am unconvinced that a penalty of an additional £1,000 would necessarily drive such owners to put their properties back on the market. The issue is probably more about the economic balance. If it would cost someone £30,000 or £50,000 to do up a commercial property, depending on its size, a

penalty of an extra £1,000 would not incentivise them to push that through in the next quarter or six months.

On the council tax side, the £1,000 penalty will be a more significant factor in deliberations for the smaller organisations—as opposed to pension funds and so on—that it is presumed own the vast majority of empty properties. It might push some of the homes back on to the market, when previously that was not so attractive. I am less convinced on the commercial property side.

**Gavin Brown:** Does Shetland Islands Council have any additional comments to make in response to that question?

**Anita Jamieson:** On the domestic property side, we are looking at very small numbers locally. I am not convinced that the bill will return more properties to use.

**Michael McMahon:** Earlier, Mr Cook suggested that there were not many holiday homes in North Lanarkshire. Given that, in North Lanarkshire, every day is a holiday, and every home is a holiday home, I was surprised by that comment, but maybe I am biased because I live in and represent the area.

More seriously, in the evidence that we have been given, questions arise about local authorities' knowledge of the number of commercial properties in their area and the impact on non-domestic rates. We have previously heard estimates of the number of public buildings that might fall under the bill, but it has been suggested that there might be disparities in that information. There seem to be a lot of holes in the knowledge base on which all of this is being calculated, yet the Scottish Government believes that it will save about £18 million a year.

North Lanarkshire's submission states:

"The Financial Memorandum appears to include a reasonable estimation of the range of cost and savings which are likely to be incurred."

However, given the lack of knowledge that has come out in the evidence and the fact that all these questions have been raised about the efficacy of the bill and about how many properties exist, how many will be affected and how many will come back on to the market, you cannot really say that the £18 million estimate is an accurate figure; it looks more like a stab in the dark. Would any of you like to comment on that?

**Brian Cook:** On the quantification of our current empty properties, both for council tax and for rates, we have been able to give a reasonable figure: in respect of council tax, there are 400 properties.

To touch on a point that was made earlier, I am not convinced that we will raise revenue of, say, £1,000 per property on the back of that. That is because not only will the bill incentivise businesses or individuals to bring the properties back into play, but there will be a greater incentive for avoidance, so the property will not end up being billed for an additional £1,000, because it will become more attractive for individuals to say that somebody is living in it, or that it is a second home or something else. Therefore, the expectation that I will not realise the expected income from the bill is not an unreasonable one.

The £18 million referred to in the financial memorandum is the net benefit to the Scottish Government's purse if those businesses come back into play and there is reduced need to provide the grant support and so on. Based on the assumptions that have been made in the financial memorandum, that does not look unreasonable, but I am not convinced that, in the case of the 400 empty properties in my area, all 400 will either come back into play for the community's use or end up being identified as being subject to a levy of 100 per cent.

**Michael McMahon:** You are saying that the £18 million is a best-case scenario; it is not an unreasonable estimate on a best-case scenario, but you do not believe that that scenario is likely to be achieved.

**Brian Cook:** I do not think that we will raise as much money as we anticipate. I think that fewer properties will be identified than the current quantification suggests. I have no doubt that currently, for argument's sake, there are 400 empty properties, but I do not think that all 400 will be classified as requiring the additional levy of, for argument's sake, £1,000 per annum.

**Michael McMahon:** Does Ms Bain concur?

**Ann Bain:** I think that the estimates have been compiled on the best information available at the time, given all the uncertainties that are expressed in the financial memorandum. My biggest concern is probably how the other reliefs interact with the levy and whether that will mean that there is much less additional revenue.

The estimates have been compiled on the data that is currently available, but there is a lot of uncertainty about some of the figures. I suspect that we will not collect the additional revenue that is outlined in the best-case scenario. In particular, in the case of council tax, it is assumed that over time the revenue will be maintained. Perversely, if the additional levy has the desired effect, the revenue will drop over time because, for example, properties will no longer be empty. We do not have any information about the average duration for which properties are empty and how quickly



the levy will bring them back into use. We need to do an awful lot more analysis of all our empty properties—whether rates or council tax would be paid—to get a good understanding of what is likely to happen.

We do not have that information, but the financial memorandum does its best with the information that is available. That is perhaps why not a lot of people criticised it. We probably cannot come up with anything better, but I still have my doubts about the estimates.

**Michael McMahon:** Does Shetland Islands Council have a view?

**Anita Jamieson:** We do not have anything to add to what has been said.

**The Convener:** I thank witnesses for their evidence and colleagues for their questions.

11:15

*Meeting suspended.*

11:24

*On resuming—*

**The Convener:** We continue the committee's scrutiny of the Local Government Finance (Unoccupied Properties etc) (Scotland) Bill, and I welcome to the meeting members of the bill team: Stuart Law, Marianne Cook, Jamie Hamilton and Sam Baker, all of whom are from the Scottish Government. I invite one of the team to kick off with a short opening statement.

**Sam Baker (Scottish Government):** Thank you for this opportunity to give evidence. I will provide a brief overview of the bill proposals—I know that some of the points have already been discussed—as well as an overview of the Government's approach to considering the bill's associated costs.

As has already been mentioned, the bill covers two topics: first, changes to local taxation charges for empty properties through business rates and the council tax; and, secondly, the proposed abolition from April 2013 of the Scottish Government's requirement to pay the housing support grant.

In relation to the empty property provisions, the bill will, first of all, enable the Scottish Government to introduce regulations to alter, for empty commercial properties, the level of empty property relief discount through business rates, from April 2013. At the moment, such properties receive a 50 per cent discount through empty property relief after an initial three-month exemption period. The Scottish Government proposes to introduce regulations that would reduce the discount to 10

per cent. No changes are proposed for empty industrial or listed commercial property. The Scottish Government feels that the change is needed both as an incentive to bring empty commercial properties back into economic use and to raise additional revenue.

Secondly, the bill will enable the Scottish Government to introduce regulations to allow for increases in council tax charges for certain long-term empty homes, in respect of which councils must currently offer a minimum discount of 10 per cent. Those regulations are expected to give local authorities the flexibility to impose, if they wish, a council tax increase of up to 100 per cent on a long-term empty home after it has been empty for at least one year.

The provision is first and foremost an additional tool for councils to encourage more owners to bring their empty homes back into use. The Scottish Government is committed to tackling the issue in order to make more homes available for rent or sale and to meet housing need. As has already been pointed out, empty homes that are not maintained by their owners can become a blight in communities. Although the additional revenue that might be raised by increasing council tax charges will no doubt be an important consideration for councils in deciding whether to impose such an increase, the Scottish Government wants to discourage among councils the view that this is just a revenue-raising measure.

Thirdly, the provisions to abolish the housing support grant are aimed at avoiding the prospect of having to use the Scottish Government's budget to fund the interest charges on councils' housing debts. Although the grant was needed in the past to help some councils to meet their housing debt costs, the introduction of the prudential borrowing regime means that councils should now borrow money for housing or other projects only if they can demonstrate that they can afford to repay that borrowing. As a result, the grant should no longer be needed. As we have heard, only Shetland Islands Council claims housing support grant, but as one would expect under the prudential borrowing framework, its reliance on the grant has been decreasing for several years now.

As the financial memorandum makes clear, there are costs associated with each of the bill's proposals. In preparing the memorandum, the Scottish Government tried to provide as much information as possible on likely costs to businesses, councils and individuals, as well as on the revenue that could be raised. However, we recognise that there are margins of uncertainty in each of the proposals.

For example, with regard to the proposals on council tax increases for long-term empty homes,

the potential costs to homeowners—and, in turn, the potential revenue for councils—will depend heavily on whether councils choose to use the new powers and, if so, the extent to which they do so. As most councils do not yet have a firm position on that, we have based our modelling on potential revenue if all councils choose to apply the maximum increase. However, we realise that that will not happen in practice. The modelling is also based on the Scottish Government's proposed regulations on council tax charges on long-term empty homes; however, as those regulations are still subject to consultation, elements of them might change, which might well have an impact on revenue and costs.

We are happy to answer any questions. My colleague Marianne Cook will answer questions on empty property relief; Jamie Hamilton will take questions on housing support grant; and Stuart Law and I will take questions on the council tax provisions.

11:30

**The Convener:** Thank you for that helpful opening statement. We have heard conflicting evidence about why properties are empty. What research has the bill team, or the Scottish Government more widely, done into why properties are empty?

**Sam Baker:** Do you mean empty homes or commercial property?

**The Convener:** In relation to commercial properties, we have discussed whether there has been speculation at least historically, if not so much at present. We have also considered why people do not let their houses. The bill will impact severely on some people, so it is important that we have a grasp of why domestic and commercial properties are empty in the first place.

**Sam Baker:** I can answer in relation to long-term empty homes. As has been mentioned, there are a number of reasons why homes are empty. In some cases, it is deliberate, but in other cases people would like to bring them back into use but are struggling to let or sell the property, or might not have the means to bring it up to standard. The work that we are doing with Shelter Scotland through the Scottish empty homes partnership involves supporting local authorities to work with owners to encourage them to bring their homes back into use. A big part of that work has been in encouraging councils to survey empty home owners to find out why the homes are empty and whether owners are willing to engage with the council to try to bring their property back into use.

For councils that have done or are doing surveys, they have been useful and have helped them to consider the best course of action. They

will be useful in helping councils to decide whether a council tax increase or something else is most appropriate for their area.

**The Convener:** You talked about properties that are deliberately left empty, but what about all those that are not deliberately left empty, but are empty because the market is struggling no matter which geographic area we are talking about? Will the bill penalise people who are desperately trying to get their properties on the market? I have constituents who have had houses on sale for two or three years but have had not even a sniff of interest. There is nothing wrong with their properties; it is just that the market in the area is as dead as a doornail.

There is a suggestion that council tax on such properties could be doubled; an average of an additional £982.07 a year in council tax could be imposed. Surely that would be horrendous for people who might be in a difficult position that they are trying to get out of.

In the evidence that we have taken so far, we have heard about unintended consequences. One unintended consequence might be that, to get rid of the burden, people could be forced to sell their houses at a lower price, thus depressing the market even further.

**Stuart Law (Scottish Government):** We have a provision in the guidelines that looks to introduce an exemption for owners who are attempting to bring their properties back into use through sale at a realistic price. It will largely be at the discretion of local authorities to apply that exemption. As things stand, people get a six-month exemption from council tax as a property becomes empty and then get six months at a discount. In theory, the levy will kick in after the property has been empty for one year. We are proposing a one-year exemption for owners to try to bring the property back into use.

**The Convener:** I see that in the policy memorandum, but you have not answered my question about what proportion of properties—commercial or domestic—you believe to be deliberately left empty, as opposed to belonging to people who just cannot get tenants, for example. That is why I asked about research on that. There are clearly differences between rural and urban areas and among local authorities. What do you believe the share to be?

**Sam Baker:** We do not know. Marianne Cook might say something about commercial property, but we do not have any figures for the proportion of people who are deliberately leaving their properties empty. Unfortunately, for data protection reasons, we do not have access to council tax data on individual owners or the addresses of empty properties, so we rely on

councils to work on engaging directly with owners and writing to them to find out why properties are empty.

It is probably fair to say that there will be a mixture in most areas, but we would encourage local authorities that are thinking of imposing a council tax increase to examine why properties are empty—we encourage them to do that anyway as part of their local housing strategy process—in order to help them to determine whether a council tax increase would be appropriate or fair in the area, and whether it would achieve the desired outcome of bringing more empty homes back into use.

**The Convener:** The bill was introduced to deal with a problem, but you do not know the extent of the problem.

**Sam Baker:** We know how many homes are empty. We have always said that the proposed measure is but one tool to deal with that problem; it is not supposed to be the only answer to the problem of empty homes. We do not want to be prescriptive about what local authorities do because empty homes are not a big problem in some areas, whereas they are in others. We would encourage local authorities that want to impose a council tax increase to work with empty home owners to offer them support and guidance.

Shelter Scotland has provided guidance for owners on how to sell their property if it is not in a good state of repair and they cannot afford to bring it up to the repairing standards. If an owner wants to let their property, there might be options through the council's private sector leasing scheme to make the property available for rent even if they do not want to be a landlord or actively to manage the property.

**The Convener:** My colleagues will interrogate that issue further, but just before I let them in, I want to ask something different. A number of witnesses have mentioned the assumption in paragraph 32 of the financial memorandum, and you touched on the point in your opening statement. The paragraph states:

"If all local authorities were to charge a maximum 100% increase for all LTE homes liable for council tax, a maximum of £33.9 million per year could be collected (assuming a 100% collection rate)."

You said that that will not happen in practice, and no one thinks that it will, so why has that assumption been based on something that no one believes will happen? Surely the financial memorandum should contain a more realistic assessment.

**Stuart Law:** We accept that the £33.9 million is highly theoretical; it is essentially a baseline figure that came from our modelling, which allowed us to accurately determine what would be the maximum

theoretical value through the number of long-term empty properties and the council tax rates. Obviously that £33.9 million has been widely trialled in the lead-up to consultation on the legislation.

While we developed the financial memorandum, we worked with local authorities and others to build in some of the unknowns, if you like, or the variables that will determine the true collection rate. Our original proposal was to start collecting revenue after a property has been empty for six months, but based on the consultation responses of local authorities and others, we changed that to one year. That removed, at a stroke, our ability to charge for about 30 per cent of the 25,000 empty properties, which would essentially have a six-month discount. Other variables include the number of properties that will be brought back into use over the life of the legislation, and the number of properties that will qualify for mandatory exemption.

The £33.9 million also includes the revenue that councils are already collecting through reduced council tax discount. When it is reduced below 50 per cent, it works out at about £7 million, which is why—as we are working through the financial memorandum—we are getting down to what we think is a more realistic figure of about £16 million. We fully accept that that £33.9 million is highly theoretical.

**The Convener:** I have one more point before I open up questioning to members. Glasgow City Council and many other local authorities have raised concerns about the cost that local authorities will have to bear because of the proposed changes to non-domestic rates empty property relief. Glasgow City Council thinks that the changes could cost it between £0.5 million and £1 million per annum. Many such properties are local authority properties—there are more than 1,000 in my area, which is North Ayrshire. Local authorities must not only meet the costs of collection but pay the increased rates on their own empty properties. What allowances have been made in relation to the impact of the changes on local authority budgets?

**Marianne Cook (Scottish Government):** In relation to non-domestic rates relief, in response to a recent parliamentary question, we estimated the overall number of properties in the local authority estate that will be affected. We think that local authorities own about 2,000 properties that are currently empty. Some of those will not be affected by the reform—for example, because they are listed or industrial buildings, or because they have no rateable value or are in the three-month period of 100 per cent standard relief.

**The Convener:** Was Glasgow City Council wrong to suggest that the changes could cost it

between £0.5 million and £1 million per annum? What estimate do you have for Glasgow?

**Marianne Cook:** I do not have an estimate that is broken down by council area. The figure depends on whether the council included properties in its direct estate and on whether it has a lot of trusts and housing associations that have non-domestic properties. Without seeing the breakdown by property, I find it hard to comment.

**Elaine Murray:** The policy intention to bring empty properties into use, whether as commercial premises or as dwellings, is laudable. The questions are whether the bill is the appropriate vehicle to achieve that aim and whether the financial memorandum is too optimistic and simplistic in its assessment of the tax returns and the costs.

Similar provisions came into effect in England and Wales in 2008 and initially appeared to be successful, because the cost of the relief scheme halved in 2008-09. However, in the following year the cost bounced back up by 86 per cent. The approach does not seem to have been particularly successful and the number of empty properties has risen by 2 per cent, which might be to do with the recession. The Welsh Assembly Government has decided to review the policy; the review will report this month.

What evidence is there that the bill is the appropriate way to achieve the aim at this time? Why has the bill been introduced in Scotland, when the approach appears to have been singularly unsuccessful in other parts of the United Kingdom?

**Marianne Cook:** Are you asking about the provisions on business rates?

**Elaine Murray:** I was asking about both systems, but most of the evidence seems to be around business rates.

**Marianne Cook:** In England there is no control situation, so it is hard to ascertain the impact of the downturn and factors such as the lack of lending by banks and changing consumer habits, which will have had an impact on the number of empty properties. Currently in Scotland, there are no incentives to encourage people to get commercial properties back into use, so the bill is an attempt to provide such incentives as well as to raise revenue.

**Elaine Murray:** That does not appear to have worked elsewhere.

**Marianne Cook:** There is no control situation elsewhere, so it is difficult to say. Without the changes, the position in England might have been worse, given the recession and issues to do with access to funding for business.

**Elaine Murray:** Ann Bain, from Angus Council, talked earlier about the problem of locating owners of properties who are not based in Scotland. Some properties are owned by investment funds, for example, which might not be based in the UK. In my constituency, we have been trying to locate the owners of a property for many years. We know who they are but we do not know where they live. How do we overcome that problem? If we cannot chase owners and find the people who are responsible for paying, we will not be able to raise the revenue.

**Sam Baker:** We appreciate that that can be a problem in certain circumstances. The Scottish empty homes partnership, which Shelter manages, has prepared guidance for councils on locating owners of empty homes, which I presume would also help in relation to empty commercial property. Empty properties are currently liable for council tax, so councils should be trying to trace the owners, which means that in most cases councils will not be trying to find new people. Of course, if they cannot find the owners and secure payment, revenue will be lost.

**Marianne Cook:** It is slightly less of a problem with business rates. The collection rates are quite high, which indicates that there is not a huge problem. There will, inevitably, be some properties for which there is no ownership but the valuation rolls provide a hierarchy that allows councils to apply the liability through the business rates system.

11:45

**Elaine Murray:** Ann Bain and witnesses from whom we heard last week also suggested that the interplay with the small business rates relief had not been taken into account in the financial memorandum.

**Marianne Cook:** We took that into account in deriving the £18 million figure because we appreciate that some properties will switch to another form of relief. Although the small business bonus scheme is the primary relief that would be affected, properties could switch to another of the reliefs that we offer.

**Elaine Murray:** I think that the witnesses were trying to make the point that a property could be empty but the owner could pretend that there was somebody in it because the rateable value would be small enough that it would qualify.

**Marianne Cook:** To apply for relief for a property that was not entitled to it would be fraud. We would expect a council to take appropriate action on that.

**Elaine Murray:** Another issue that was raised with us was that the owners of many empty

properties find that the cost of bringing them up to the standard for letting is a problem. You said that you would work with owners, but it is not necessarily about that, but about a cost that makes it difficult for some of them to bring the properties up to a standard that allows them to rent them out for domestic or commercial purposes. Do you have any proposals for facilitating the financial situation that would allow such properties to be brought into use?

**Sam Baker:** Yes. We have proposals in relation to empty homes rather than commercial properties. The Scottish empty homes partnership has been working on the issue. The Scottish Government has also encouraged local authorities to work with owners on it and, where appropriate, to offer, for example, loan schemes to enable owners to bring their properties back up to standard.

I appreciate that resources are tight for local authorities, but they could use some of the revenue that they would raise from any council tax increase to fund such loan schemes, which could be helpful. Other resources, such as the private sector housing grant, have been used in the past to provide grants or loans to owners.

In addition to that, the Scottish Government recently announced an additional £2 million fund for empty homes loan schemes, which will be introduced later this year. That money is over and above the innovation fund that we ran last year, which supported a number of empty homes projects.

Opportunities exist. They may not be appropriate in all circumstances, and it would be for the owner to decide what was feasible. In some cases, if significant works are required and the owner does not have the resources, selling the home may be their best option. Shelter Scotland and councils can advise them on how to do that. I appreciate that, in the current market, it is difficult to do that and owners may not achieve the kind of price that they would like, but options exist—through auctions, for example—if an owner needs to sell their home.

**The Convener:** On the impact of the recession, in research that the Royal Institution of Chartered Surveyors and Lambert Smith Hampton undertook following the reforms in England,

“over a quarter”

of respondents

“said that the reforms had led to an increase in the number of vacant properties ... 93% felt that the reforms to empty property rates relief had exacerbated the financial difficulties of property companies and occupiers”,

while

“85% of respondents said that the reforms to empty property rates were having a detrimental effect on town regeneration and a similar proportion said that the reforms were acting as a deterrent to speculative development”—

speculative developments being, for example, business centres, about which we took evidence last week. What comments do you have on that evidence? It seems to be pretty conclusive to me.

**Marianne Cook:** It is hard to separate that from what was going on at the time. The global recession means that it is hard for smaller firms to get access to funding through banks and there is no control situation. However, we looked at what happened in England when we devised our policy, which is why we protected industrial property, which was not done in England. The evidence indicated that a lot of the demolition was in the industrial sector. Such properties often have quite limited uses, perhaps because of planning constraints.

**The Convener:** Given those comments and the fact that we are still in recession—or in a second recession—it is hard to work up enthusiasm for the bill or to conclude that it is the right time to introduce such measures.

**Marianne Cook:** The policy has two purposes, which are to introduce a new incentive that encourages properties back into commercial use in empty high streets with a lot of empty shops and to raise revenue.

**John Mason:** I will follow up that point. It was said that the vacancy rate down south went from 3 per cent to 14 per cent, but I guess that, in the face of a lack of evidence, you would argue that that rate could have been 20 or 25 per cent without the measure, so perhaps the effect has been positive. To be frank, we do not know.

**Marianne Cook:** Yes—it is hard to say because there is no control situation.

**John Mason:** Shetland Islands Council argued that about 40 per cent of its income would end up being used for debt payments and I know that the rate in Glasgow used to be 50 per cent. That seems to be quite a challenge for Shetland, given that the rest of the money must pay for repairs and so on. Is the argument that that council's reserves are so fabulous that it can deal with that itself?

**Jamie Hamilton (Scottish Government):** The 40 per cent is moveable, because it depends on the level of costs and rents in the housing revenue account. To get the 40 per cent down, rents can go up a bit, costs can come down a bit or a bit of both can be done. The figure is in no way fixed.

The debt burden and the grant are falling from year to year. We have been in discussions with Shetland Islands Council for many years to ease the situation. It is getting better every year,

although whether it is getting better quickly enough is questionable.

As John Mason said, the figure was in the region of 50 per cent in Glasgow, which is certainly not a particularly good situation to be in. Other councils and some registered social landlords are in similar positions. I will stop there.

**John Mason:** That is fair enough. Another point that Shetland Islands Council made was about transitional arrangements. Is there flexibility to smooth out the position over the next few years?

**Jamie Hamilton:** Shetland Islands Council has presented quite a range of options to us, which we are still considering with ministers. Some of the options are more expensive than others. We have not reached a conclusion, but it should not be long before we do, after which we will return to the council to discuss the situation.

**John Mason:** In its submission, the Convention of Scottish Local Authorities re-emphasised the idea that local authorities should have flexibility across the board—in relation to council tax and non-domestic rates—because it feels that the bill and the financial memorandum are a bit unclear. I was certainly a bit uneasy about some of the wording in the financial memorandum. Paragraph 35 says:

“The regulations may provide that, effectively, local authorities set the level of discount ... However, the Scottish Ministers will be able to set a maximum discount or maximum increase”.

Is the position at the moment that we do not know how specific ministers will be and therefore how much flexibility councils will have?

**Sam Baker:** No. We set out in the financial memorandum what the bill allows for in relation to council tax. The bill will amend the Local Government in Scotland Act 2003, which allows ministers to make regulations to set a council tax discount rate or to give local authorities discretion. The regulations that have been in place since 2005 allow local authorities discretion over rates for long-term empty homes and second homes.

We wanted to be clear in the financial memorandum about what the regulations would technically allow the Scottish Government to do, but ministers' intention is to give local authorities discretion over whether to implement an increase.

**Marianne Cook:** I clarify that councils will have no flexibility on business rates. Empty property business rate relief is a national scheme that is uniform across Scotland and is funded from the Scottish Government budget. Councils will have no flexibility to choose to award relief; the national policy will simply be followed.

**John Mason:** That is helpful. Thank you.

The financial memorandum also mentions that the Scottish Government has fewer than 12 properties that would be empty. However, witnesses have suggested that if the properties of organisations such as Scottish Enterprise were included, the number would be a lot more than that. Is that the case?

**Marianne Cook:** Yes. It depends on who has the liability. Scottish ministers have direct liability for the dozen or so properties within the core Scottish Government estate. We did not include agencies, non-departmental public bodies and so on, but they may have empty properties as well.

**John Mason:** They would have to meet the costs of any extra charges.

**Marianne Cook:** Yes, or bring the properties back into use.

**John Mason:** In its written submission, Glasgow City Council talks about hard-to-let areas where it is desperately trying to let commercial properties, some of which are in my constituency. It has done work to make the shops more attractive by painting them and that kind of thing, but it has still struggled to let them. Is this not going to be just another burden on councils such as Glasgow City Council and North Lanarkshire Council, which are trying to let properties?

**Marianne Cook:** It will increase their overheads and their rates burden, but they can do other things such as lower the rents. The small business bonus scheme also acts as an incentive for tenants. If a council can get a tenant in within the thresholds of the scheme, that is another selling point for that property.

**John Mason:** Another argument that has been put by some of the councils and by the property witnesses from whom we heard last week is that developers will be less likely to speculate because they could be left with empty offices that they have to pay rates on and that, at the other end, grey area properties might be demolished more quickly in order to avoid the extra rates.

**Marianne Cook:** We will monitor the level of vacancy rates across Scotland and will report on those as appropriate, looking to see where the properties are being demolished. The bill gives us the power, which we do not have at the moment, to vary the relief through regulations.

**John Mason:** I am not saying that I agree with the witnesses from whom we heard last week, but they argued that the bill would have quite a big impact immediately. The building of speculative property down south stopped for a while. Perhaps that was linked to the recession, but the witnesses said that introducing the legislation down south had made quite an impact. You are not worried about that.

**Marianne Cook:** We do not have any solid evidence for what the main factor was in any reduction in development—whether it was the recession, the global downturn or whatever.

**John Mason:** Okay. Thanks very much.

**Michael McMahon:** In your earlier comments, you said that local authorities could offer an exemption to owners if they were seen to be trying to sell their property at a reasonable price. Although I understand that it is the responsibility of a local authority to look at supply and demand in different tenures and, as the strategic authority, to try to ensure that the demand for the different tenures is met in the local circumstances, is it really the local authority's responsibility to try to skew the market? Who determines what is a reasonable price? If someone's property is empty because they have set the price too high, is it really the local authority's responsibility to enter into discussions about the prices for which houses should be sold in any given circumstance?

**Stuart Law:** We were trying to ensure that, if a purchaser came along and wanted to buy a property, the owner would sell it. We included the bit about ensuring that a reasonable price has been set for the property to ensure that properties are not being marketed at an unrealistic level—at, say, double their value—meaning that no one will buy them. At the moment, every property that is sold in Scotland has a home information pack that includes a valuation of the property by a surveyor and it is relatively simple to determine a property's value. We wanted to ensure that the exemption was not open to misuse.

**Michael McMahon:** If a property developer is trying to sell a property and sets a price that they think will ensure them a return, what business is it of the Scottish Government or local government to determine whether the developer is selling the property at a price that entitles them to an empty-property exemption from council tax?

**Sam Baker:** As with many of the exemptions that are already available for council tax, there could be different interpretations among councils. It would be up to each council to decide whether it would require evidence—such as seeing the home report or evidence that the property was being marketed for sale—or how much checking up it would do before it offered a time-limited exemption for a property. It is not the responsibility of the local authority to say whether the price is reasonable, but it would be able to check the home report valuation, for example, which is an independent valuation. If the property is being marketed for more than that valuation, the local authority might question whether a reasonable price was being expected.

12:00

**Michael McMahon:** Has the cost of local authorities becoming estate agents been taken into account?

**Sam Baker:** The estimates that councils gave us included considering whether people were entitled to an exemption. We need to do more work with councils on developing the regulations and preparing for how they will work in practice.

**Stuart Law:** One of the concerns raised by local authority colleagues in the consultation was that they would not want that exemption to be misused. That was one of the theories that was put to us as a potential solution.

**Gavin Brown:** All my questions relate to non-domestic rates for commercial properties. The Welsh Government published a business rates policy review summary of responses in March. Is the bill team familiar with that document?

**Marianne Cook:** No, but I am aware of it. Is that the Professor Morgan review group, which is reviewing wider business rates in Wales?

**Gavin Brown:** It is on official Welsh Government paper. It does not say whether it is Professor Morgan.

**Marianne Cook:** If it is an independent review group that was recently appointed—

**Gavin Brown:** It is Welsh Government document number WG15166, dated March 2012. Are you familiar with it?

**Marianne Cook:** I have met the Welsh review group, if we are talking about the outcome of the group's deliberations. I have not seen the report to which you are referring, though.

**Gavin Brown:** I will not pursue the report in that case, other than to say that the first subject tackled is empty property rates, and the key point on page 2 of the report is:

"Empty Property Rates ... in its current form is unpopular and is perceived as a barrier to growth".

That seemed to be the key finding in the summary of responses.

**Marianne Cook:** I will review the document.

**Gavin Brown:** I understand that there was a consultation in relation to the council tax and housing support grant changes but there was no consultation in relation to empty property rates relief. Is that correct?

**Marianne Cook:** There was no separate consultation but it was announced as part of the spending review by Mr Swinney on 21 September, and there was a consultation on that.

**Gavin Brown:** There was a consultation on that.

**Marianne Cook:** The draft budget is a consultation, and we received a number of submissions relating to the empty property provisions that were announced in that paper.

**Gavin Brown:** I had a look at the policy memorandum, which gave a helpful link to the spending review document. Page 226 of the document says:

“Empty property relief will be reformed to provide strong incentives to bring vacant premises back into use, reducing the prevalence of empty shops in town centres and supporting urban regeneration.”

Does the document say any more than that?

**Marianne Cook:** No, but in subsequent correspondence we gave out more detail of the level of reform that we were considering.

**Gavin Brown:** There was no formal consultation on that specific part of the bill.

**Marianne Cook:** There was no separate consultation other than on what was in the draft budget.

**Gavin Brown:** Why has there not been a business and regulatory impact assessment?

**Marianne Cook:** Because it would have been disproportionate to do one because of the level of savings that we were looking at, which was about £18 million. Overall, business rates are paid by about 200,000 properties. There is a tax base of £6.7 billion; business rates generate about £2.3 billion a year, so savings of £18 million are relatively small.

**Gavin Brown:** Would you be surprised if there were regulations that did have business and regulatory impact assessments, where the sums were far smaller than £18 million?

**Marianne Cook:** It is to do with the proportional impact of the £18 million in the wider context. We are forecasting the overall relief to cost £757 million across the five-yearly revaluation cycle. It is about the proportion.

**Gavin Brown:** How many empty commercial properties do we have?

**Marianne Cook:** Around 20,000, but a lot of those will not be affected by the reform that we are proposing.

**Gavin Brown:** Just for clarity, the projected cost on business is £18 million and there are around 20,000 empty properties, not all of which will be affected, but in the Scottish Government's view it would be disproportionate to carry out an impact assessment on the measure.

**Marianne Cook:** Yes, if you consider the £18 million in the overall scheme of things.

**Gavin Brown:** Let us talk about the £18 million. I have read the financial memorandum. It reminded me of a maths puzzle, the answer to which is given as £18 million, but there is no demonstration of how that figure is reached—the workings are missing. Therefore, I found it difficult to establish how accurate an estimate it is and whether it is a stab in the dark or is completely on the money. Will you talk us through how the £18 million breaks down and how you arrived at it?

**Marianne Cook:** The committee has had conflicting evidence. The councils have just told you that they thought that we would get a lot less money, whereas last week the Scottish Property Federation told you that it thought that we would get a lot more.

I am happy to provide a breakdown of how we got that figure. As well as the information from councils that we have on every empty property in Scotland and the amount of relief that is provided, we have information from the valuation rolls, which are publicly available. They list every vacant commercial property. I am happy to provide such a breakdown.

**Gavin Brown:** Why is that not in the financial memorandum?

**Marianne Cook:** We get regular data returns and we knew that we were due an updated set of data from the councils in the weeks immediately following the publication of the financial memorandum, so we decided to wait for that data just to make sure. We came back to exactly the same figure, but we wanted to reflect on the most up-to-date data.

**Gavin Brown:** Will that be published and given to the committee in advance of the publication of our report?

**Marianne Cook:** Yes, we are happy to give that to the committee.

**Gavin Brown:** I am sorry—convener, when is our report due to be published?

**The Convener:** It will come to the committee on 16 May.

**Gavin Brown:** Can we get that information in full before then, so that we can consider it properly?

**Marianne Cook:** Of course.

**Gavin Brown:** In arriving at the figure of £18 million, how much was taken away for businesses that will switch to the small business bonus relief?



**Marianne Cook:** I do not have that figure; we think that up to about 2,000 properties will move to the small business bonus scheme.

**Gavin Brown:** But you do not have the figure for what your assumption was.

**Marianne Cook:** I do not have in front of me the figure for the monetary value.

**Gavin Brown:** What assumptions did the Scottish Government make about premises that may become charity shops?

**Marianne Cook:** Do you mean premises that become occupied as charity shops?

**Gavin Brown:** Yes. That would mean that the owners would not have to pay the—

**Marianne Cook:** We did not do any estimates based on predictions of what properties may or may not be used for in the future. I do not think that we could predict how a property might be occupied and who the occupier might be.

**Gavin Brown:** What assumptions did you build into your calculations about the collection rate?

**Marianne Cook:** What do you mean?

**Gavin Brown:** Did you assume that you will collect 100 per cent of the money that is due? Did you make allowances for businesses that go into administration or for properties being demolished, for example? Is the £18 million figure based on the assumption that you will collect 100 per cent of the money or a lower proportion?

**Marianne Cook:** We did not make any predictions about how many properties might go into administration. Such predictions would be quite difficult to make. We took the amount that we would normally collect. The businesses in question are paying business rates already, at a lower rate. We just calculated the savings to the Scottish budget of increasing their rates bill.

**Gavin Brown:** You said that you took information from every local authority.

**Marianne Cook:** I said that we have information from every local authority.

**Gavin Brown:** Okay. Surely that means that you can tell us what the cost to councils of the measure will be.

**Marianne Cook:** That will depend on how the ratepayer is listed. Councils might list themselves as being the ratepayer, but councils such as Glasgow City Council have lots of trusts and subsidiaries, such as housing associations. The figure will depend on how a council is defined.

**Gavin Brown:** What will the cost on councils be if we take away any arm's-length organisations and consider just those cases in which the council

is listed on the valuation roll? Have you done that work?

**Marianne Cook:** We could do that where the council is directly listed as the ratepayer, but in many cases it is not—for example, the director of social work might be listed as the ratepayer. It depends on how we define what constitutes the council.

**Gavin Brown:** I am driving at whether you have done that work.

**Marianne Cook:** We have done an approximation of that—that is where the figure of 2,000 empty properties, which was given in response to a parliamentary question a few months ago, comes from. We tried to include all council departments and subsidiary bodies, where we could, but that is quite difficult, because councils do not necessarily list themselves as being the ratepayer. It is not as easy as just searching for Glasgow City Council, for example; it is necessary to look for all the other bodies that could be owned or part owned by the council.

**Gavin Brown:** But did you ask the individual councils that question?

**Marianne Cook:** We did not ask councils about that. We used the information that we already had.

**Gavin Brown:** You heard the convener talking about Glasgow City Council, which has predicted that the figure for it could be £1 million. I do not know whether that figure is correct, but if the figures of £18 million and £1 million are right—let us assume that they are—that means that Glasgow City Council is footing 5 per cent of the bill. If that is correct, what is the bill likely to be for the public sector at large, including Scottish Enterprise, the national health service and all the other councils?

**Marianne Cook:** Again, it depends on how we define the public sector. There are things such as Scottish Water with Business Stream, which is commercial. It is very much a matter of how we define what the public sector is and what the private sector is. There are many grey areas. If we had a definite definition, we could work that out, but as far as I am aware, that does not exist to split a property between uses.

**Gavin Brown:** Should that have been done in the financial memorandum?

**Marianne Cook:** Are you talking about the impact on the public sector?

**Gavin Brown:** Yes.

**Marianne Cook:** We know that there will be an impact on the public sector, and we acknowledge that in the financial memorandum.

**Gavin Brown:** But you have said that the cost to the Scottish Administration will be nil, in effect. You have also said that you have included only 12 properties that are centrally owned. Therefore, you have not taken into account anyone else in the public sector.

**Marianne Cook:** At the bottom of paragraph 23 of the financial memorandum we noted that there will be a cost to councils that have their own properties. We acknowledged that, but we did not cost it.

**Gavin Brown:** Yes, but I presume that the point of a financial memorandum is to cost things.

**Marianne Cook:** Because we cannot define what a council-owned property is, where the council has a third party and where it sublets is open to interpretation. Should such things be included? If we had a set definition of the council estate, we could do so, or we could go out to councils and commission information on that, but we would have to be quite clear about what we did and did not expect them to include in that analysis.

**Gavin Brown:** What will the cost be to the NHS?

**Marianne Cook:** I do not have the figures for that, but the NHS will have empty properties on its estate.

**Gavin Brown:** Okay. What will the cost be to Scottish Enterprise?

**Marianne Cook:** Again, I do not have the figures for that in front of me. However, they would be available from the valuation roll.

**Gavin Brown:** Have you seen any evidence that suggests that the bill will increase the number of empty commercial properties that are brought back into use?

**Marianne Cook:** At the moment, there are no incentives in the business rates system to bring empty commercial properties back into use. What has been proposed is the first incentive to do so that we have introduced.

**Gavin Brown:** Okay, but my question was whether the Scottish Government has seen any evidence that suggests that the bill will bring empty properties back into use.

**Marianne Cook:** Because no incentive to bring empty commercial properties back into use exists at the moment, we will monitor the impact of the policy. However, we cannot say that we have seen any evidence in Scotland on whether the incentive works, as it does not exist in Scotland.

**Gavin Brown:** There is no evidence in Scotland, but have you seen evidence from England or Wales that the bill will have a positive impact?

**Marianne Cook:** No, but we have not seen any evidence that isolates the impact of empty rates relief compared with the impact of all the other factors that will impact on the number of empty commercial properties either.

**Gavin Brown:** You have said that there is no control. However, you said earlier—if I heard you correctly—that you had examined what had happened in England and, on that basis, you are making an exception for industrial properties up here, as you were able to see the impact of the measure on industrial properties.

**Marianne Cook:** There was some suggestion that there were mainly demolitions of industrial properties.

**Gavin Brown:** Was there a control group for that?

**Marianne Cook:** No. It was just a matter of what we had seen in some of the documents that were referred to, such as the RICS report. We also looked not to have our reform go as far as England's, so we will still have more generous relief for empty properties after the reform. We are not going down to 0 per cent, which is currently in place in England. We are keeping the figure at 10 per cent for an indefinite period.

**Gavin Brown:** Finally, has anyone contacted the Government to say that they think that the idea is good, will help the economy and will work?

**Marianne Cook:** The Federation of Small Businesses welcomed this. I do not have exactly what it said in front of me, but it said that it welcomes anything to try to encourage high streets back into use. I am paraphrasing, but I can give the committee the exact quote if it wants it.

**Gavin Brown:** Just for clarity, did the FSB welcome the specific measure?

**Marianne Cook:** I am trying to find out whether I have the quote with me. I think that the FSB welcomed the reform of empty property relief. I refer to the press release from Andy Willox on 21 September. I am happy to provide the committee with the quote.

**Gavin Brown:** It would be helpful to see that quote. Thank you.

**Michael McMahon:** Ms Cook, you appeared very definite when you said that you know how many empty properties there are, having spoken to local authorities. However, authorities that provided submissions to the committee could not tell us how many empty properties they have. They provided guesstimates or added heavy caveats to their figures. Shetland Islands Council said that it does not even know how many commercial properties it has, let alone how many are empty. You seem to be very definite about the

number of empty properties that you are talking about, whereas the authorities that provided evidence could not give us a definite answer, even though they own some of the properties.

12:15

**Marianne Cook:** I was quite surprised by that, because we get information from councils. Of course, properties go in and out of use all the time, so the information always applies to a point in time. We get returns from councils about every property that is in receipt of any kind of relief. That is how we produce our small business bonus statistics, for example. We have to get the information from councils that tells us who is getting the bonus, so that we can publish our annual statistics.

There are also the valuation rolls, which list the occupier of every non-domestic property in Scotland—there are 217,000. Our analysts use a combination of those two sources of information to produce all our statistics and income-estimate modelling on non-domestic rates.

**The Convener:** Angus Council said:

“No information is currently held on the reason for a dwelling being long term empty and an information gathering exercise would be required to identify potentially exempt properties.”

Even if we know the number of empty properties, we do not necessarily know how many need to be identified in the context of the bill.

When Gavin Brown asked about the impact on local authorities, you said that that will depend on the definition of the public sector. In a written answer to a parliamentary question, the Government said:

“Reform of empty property relief will save an estimated £18 million ... of which, the impact on councils is estimated to be less than 10 per cent of that total.”—[*Official Report, Written Answers*, 21 March 2012; S4W-06087.]

The Government must have had a clear idea of its definition, for it to be able to give such an answer.

**Marianne Cook:** We did the analysis on the basis of what we thought are council properties. We might have missed some, because councils can list various subsidiaries or bodies as the ratepayer. Where we knew that a property was a council property, we included it. However, in some cases a named individual who happens to be an employee of the council might have been listed as the ratepayer; we might have missed such cases.

**Paul Wheelhouse:** Ms Cook, I am sorry that you are not getting a rest at this point; I hope that this will be a less robust line of questioning than you have been dealing with.

I declare an interest. As I said last week, I am a former employee of the DTZ group. I should also declare that I am involved with the Eyemouth and district initiative group, which is a local regeneration initiative.

My questions relate to non-domestic rates in the context of non-market-led property investment and speculation. At last week’s meeting, we heard from the Business Centre Association that there has been growth in demand for co-working hubs, as they are dubbed, which are used by people who work in rural areas, for example, and perhaps do not have access to non-domestic properties in which to base their businesses. The approach enables people to share the group dynamic while being self-employed.

In rural areas, in particular, there might not be demonstrable demand to justify a private sector investor coming in to invest in that context, so we rely on the enterprise agencies, local authorities and perhaps others, such as third-sector organisations, to provide such facilities. Have you considered the implications for investments of that type? There might be a disincentive for organisations to invest in such facilities if they think that they will be hit with an increased rates bill. How might you tackle that?

**Marianne Cook:** Ministers are engaging with a range of property developers, including the Business Centre Association, which gave evidence to the committee last week. The BCA builds a lot of business incubator-type properties. Ministers have said that there is flexibility in the policy and have made an open offer to various sectors to suggest how the policy can be refined, provided that it achieves its objectives, which are to save £18 million and to encourage empty properties back into use. The work is on-going.

**Paul Wheelhouse:** I am aware that exemptions are proposed for listed properties, but might there be exemptions for other properties that are not listed for architectural reasons but which have totemic significance in a community? For example, a building that is at the heart of a town or village might need to be regenerated through targeted investment, and an exemption might ensure that it comes into productive use rather than being demolished. Is there scope for similar flexibility in that regard?

**Marianne Cook:** Ministers have made the offer and said that there is flexibility. The one point that I would make in relation to business rates is that we need to consider the state-aid rules, which come into play if we give someone an advantage that we do not give to someone else. That would need to be factored in to any exemption that we gave in future.

**Paul Wheelhouse:** That is helpful.

In evidence last week, both the Scottish Property Federation and the Business Centre Association mentioned the experience in Wales, where there is a three-year window for purely speculative development, whether it involves the conversion of a building from a previous use to a new one, or a greenfield or brownfield development from scratch. Within the three-year window, there is an exemption from the impact of empty property rates. Have you had any discussions about that? You mentioned that you met members in Wales to discuss their experience. If anything came from those discussions, it might help the committee to know about it.

**Marianne Cook:** I am aware that the Scottish Property Federation mentioned that when it gave evidence. I checked with the SPF, and it seems to have picked up something wrongly. I think that it read a press report. I cannot comment on what its source was, but as far as I am aware, there is no special provision in Wales for newly built properties to be exempt from the reform of business rates in Wales in 2008.

**Paul Wheelhouse:** Are you able to provide a definitive clarification of that?

**Marianne Cook:** Yes. I can check with officials in the Welsh Government.

**Paul Wheelhouse:** On the face of it, it seemed an attractive option, but if it does not apply in Wales, we will need to take that into account.

**Marianne Cook:** I will clarify that. Did the Scottish Property Federation give you a source when it gave evidence?

**Paul Wheelhouse:** I do not think that it did, but I might be wrong about that.

**Marianne Cook:** Was it in the SPF's written evidence?

**Paul Wheelhouse:** It was in the oral evidence that it gave last week. It mentioned the three-year gap and said that it would expect the property to be 50 per cent occupied at the end of year 1, 75 per cent occupied at the end of year 2 and 90 per cent occupied by the end of year 3. It was in the context of that discussion about what would be a realistic period in which it could assume that there would be a high level of occupancy, after which the owner could bear the additional burden of empty property rates on the remaining 10 per cent.

Another thing that I touched on with the Scottish Property Federation was its assertions about the bill's impact on investment decisions. I understand that we are going to ask it to come back to us on something that it committed to do, which was to provide an example investment appraisal to show the potential impact on yield, which is the key driver for private sector investors. You might not

have analysed or modelled the impact of rates relief, but have you had any representations on the impact that the bill would have on investment yield for property investment?

**Marianne Cook:** Ministers and officials have met the Scottish Property Federation and we have agreed to continue engaging with it. If it is happy to provide that information to us, we will gladly consider it and the points that it makes.

**Paul Wheelhouse:** Thank you.

**Mark McDonald:** Earlier, we took evidence from Shetland Islands Council, which implied that its housing debt burden makes the withdrawal of housing support grant untenable without some form of transitional arrangement, although there was a question about whether it means in total. What evidence do you have about how Shetland's housing debt burden compares with that of other local authorities in Scotland, particularly the smaller authorities? We were unable to get much from the council on that.

**Jamie Hamilton:** There are two ways of looking at that: you can examine either the overall debt burden as a percentage of its turnover or the amount of interest that it pays on its debt as a percentage of turnover. I do not have the complete lists with me, but there are certainly landlords with greater interest burdens than Shetland. I cannot remember Shetland's ranking, but it is certainly not top of the league on that. However, we are happy to provide that information if you want it.

**Mark McDonald:** In light of the evidence that we heard earlier, that information would be helpful. After all, is it not the only authority to receive housing support grant?

**Jamie Hamilton:** It is. No other authority has received it since 2006.

**Mark McDonald:** Angus Council implied—and indeed the implication has been confirmed—that, instead of getting empty property relief, certain empty properties might receive money from the small business bonus scheme. How many properties have flipped in that way?

**Marianne Cook:** We think that about 2,000 properties might switch to the small business bonus scheme. Obviously, it will all depend on occupation. A property might be owned by an individual business and then get taken over by a chain. It is a moveable feast, but that is our best estimate. I am certainly happy to provide a breakdown.

**Mark McDonald:** Angus Council also implied that a number of empty properties are currently receiving money from the small business bonus scheme. Do you have any evidence of that?

**Marianne Cook:** As councils administer and police the rating system on the Scottish Government's behalf, any business, no matter whether it was applying for empty property relief, rural rates relief, small business bonus or any of the other reliefs on offer, would have to apply to the council and provide evidence that it qualified.

**Mark McDonald:** But it is not possible to claim both.

**Marianne Cook:** Reliefs interact, which means that some properties can be eligible for two or three reliefs. For example, if a property is in the right area, it might get the small business bonus and a rural rates relief top-up.

**Mark McDonald:** You mentioned a global figure of £757 million for empty property relief.

**Marianne Cook:** That is over a five-year period. There is a business rates revaluation every five years and the £757 million is the figure for 2010-11 to 2014-15 under current estimates and before we introduce the reform.

**Mark McDonald:** How does that compare with the amount spent on the small business bonus scheme?

**Marianne Cook:** It is actually the most expensive relief that we offer. In the current financial year, the cost of empty property relief is £152 million, while the cost of the small business bonus scheme is £9 million less, at £143 million.

**Mark McDonald:** So, if we extrapolate, there will be a gap of £45 million or thereabouts between the two reliefs over the five-year period.

**Marianne Cook:** I have the figures in my folder, but I cannot lay my hands on them. However, I am happy to provide the five-year figures if you want to see them.

**Mark McDonald:** That would be fine. It would also give us a bit of perspective if you could provide some comparison with other forms of relief on offer.

You said that discussions with interested parties on alternative delivery mechanisms are under way. However, if the proposals go through as they stand, how will Scotland's business rates package compare with that in the rest of the UK? At the end of the process, will we still have the competitive advantage that we have at the moment?

**Marianne Cook:** Yes. The reliefs will still be more generous. In England, for example, a standard empty shop or office receives 100 per cent empty property relief for three months and then nothing whereas in Scotland the same kind of property will receive 100 per cent relief for three months and 10 per cent thereafter for an indefinite period. Moreover, unlike in England, we are protecting industrial properties. Given that and the

fact that Scotland's small business bonus scheme is far more generous, we will still have the UK's most competitive rates relief package.

12:30

**Mark McDonald:** My questions about some of the evidence that we have received from other interested parties have mostly been answered. Nevertheless, you said that there are discussions going on in the background with the likes of the Business Centre Association, the Scottish Property Federation and others who have expressed concern about what they perceive is being done differently. We have teased some of that out in our evidence taking, but do you have any idea when those discussions are likely to conclude or when they might lead to developments? I am sure that, if there is any likelihood of the committee's report on the financial memorandum being overtaken by events, we will benefit from being kept updated on any such developments.

**Marianne Cook:** We are happy to do that. I point out, though, that the bill only provides enabling powers; the exact percentage of relief will be set out in the future regulations. We have said that the relief will be 10 per cent, but ministers have indicated that, given the questions that have been raised by external parties about the £18 million figure, they will be flexible over the reform if we raise significantly more than that. In other words, although we are pretty certain of the accuracy of the £18 million figure, ministers have said that the 10 per cent figure might change if, as the SPF believes, we raise more than that. We are also reviewing business rates later in the year, and other incentives to promote regeneration and so on could be introduced as part of that process. However, that process has not happened yet and I cannot predict its outcome.

**The Convener:** The committee appears to have exhausted its questions, but I have one or two more to ask.

A number of members have referred to Shetland Islands Council in light of the previous evidence session. What are its per capita reserves relative to those of other local authorities?

**Jamie Hamilton:** I have not done the calculation, but I think that they are high. I am sure that we can quite readily provide that information.

**The Convener:** We would appreciate that.

What assumptions have you made on the number of empty properties that will be brought back into use following the introduction of this legislation?

**Marianne Cook:** We have not made any predictions in that respect. I am happy to give the

committee a breakdown of how many will be affected, but we will have to monitor the number that come back into use. That will take time. After we reform the relief in 2013, there will be a period in which the incentive—we hope—might start to work and encourage properties back into use.

**The Convener:** I am surprised that the financial memorandum did not estimate the number of empty properties that will be brought back into use. That is, after all, a fundamental aim of the bill. Given that the memorandum contains assumptions on a whole host of other areas, I find the lack of an estimate of the positive impact of this move—if, indeed, it is positive—in one, two or five years to be something of a weakness in it.

**Marianne Cook:** We hope that the move will bring properties back into use. As I have said, there is no control situation in England, but other factors such as regeneration strategies and the small business bonus scheme might offer incentives and encourage properties back into use. It is hard to look at the matter in isolation, but we will certainly be monitoring the number of vacancies in Scotland.

**The Convener:** I have many hopes and fears, but my feeling is that the word “hope” should really not be used in connection with a financial memorandum. Surely it should be based on something a wee bit more robust than that. I see my colleagues nodding, so there appears to be some sympathy with that view. I know that you do not have the evidence, but surely you should have something more than this. As it is drafted, this financial memorandum seems to me to be just a shot in the dark.

**Marianne Cook:** We have always been clear that this measure is about raising revenue and introducing an incentive. We will monitor whether that incentive works.

**The Convener:** I will let Michael McMahon have the last word.

**Michael McMahon:** I have a very brief question. Even if you do not have a baseline to work from, there must be evidence from previous periods of growth showing that a certain number of empty properties came back on to the market purely because of growth in the economy. Will that be factored in? After all, properties might come back on to the market just because of an upturn in the economy, and it might have zero to do with your incentives. Surely you will have to allow for that figure.

**Marianne Cook:** I can see whether we have any data from previous years, but I am not sure that we do. The information that we have received from councils on properties receiving relief is relatively recent—I think that we got it only two or two and a half years ago—and I do not know

whether our analysts have any data at that level of detail going back over a set period.

**Michael McMahon:** If, say, 10 per cent of properties come back on to the market, you will be able to put it all down to this incentive and zero down to the upturn in the economy.

**Marianne Cook:** I assume that our economists might be able to allow for that. As I am not an economist, I cannot answer your question about all the other factors that might come into play.

**Michael McMahon:** So we will never know.

**The Convener:** I said that I was going to give Michael McMahon the last word, but I am not going to.

The world is a big place. You have said that there is no evidence from England, but is there any evidence from Lithuania, Sweden, Argentina or wherever that suggests whether the policy might be effective?

**Marianne Cook:** I am not aware of any other international evidence. Obviously, different countries have different types of property tax, but I am not aware of any that have had exactly the same baseline that we have had and have made exactly the same change that we are making.

**The Convener:** Not exactly, of course, but what about evidence on this kind of general incentive—if indeed it is an incentive—to bring properties back into use? Surely there must be somewhere—one of the states of the USA, perhaps—where such a policy has been enacted and you can say, “Ah—big success,” or, “Hmm—bit dodgy.”

**Marianne Cook:** We are happy to explore the issue further and see whether there are any international examples, but I am not aware of any at the moment.

**The Convener:** Could you have a wee look at that?

**Marianne Cook:** We are happy to do so.

**The Convener:** I thank our witnesses for their evidence and everyone for their attendance.

*Meeting closed at 12:36.*

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