Stephen Herbert and Wendy Kenyon

This briefing for the Rural Affairs and Environment Committee provides information about livestock auction marts and the 2010 non-domestic rates revaluation. It gives background information about auction marts and about the 2010 revaluation in general. The briefing examines two concerns raised by the Institute of Auctioneers and Appraisers Scotland - the methodology used in the 2010 revaluation of auction marts, and the lack of a transitional scheme in Scotland.

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<table>
<thead>
<tr>
<th>CONTENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE SUMMARY ................................................................. 3</td>
</tr>
<tr>
<td>NON-DOMESTIC RATES ................................................................. 4</td>
</tr>
<tr>
<td>2010 REVALUATION ................................................................. 4</td>
</tr>
<tr>
<td>LIVESTOCK AUCTION MARTS ...................................................... 5</td>
</tr>
<tr>
<td>VALUATION METHODOLOGY FOR LIVESTOCK AUCTION MARKETS ............ 6</td>
</tr>
<tr>
<td>THE IAAS VIEW ON THE VALUATION OF AUCTION MARTS .................. 7</td>
</tr>
<tr>
<td>INCREASES IN NON-DOMESTIC RATES FOR SELECTED MARTS IN SCOTLAND ... 8</td>
</tr>
<tr>
<td>TRANSITIONAL SCHEME ............................................................ 8</td>
</tr>
<tr>
<td>TRANSITIONAL SCHEME – SCOTTISH GOVERNMENT POSITION ................ 9</td>
</tr>
<tr>
<td>SOURCES .................................................................................. 10</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

Non-Domestic Rates (NDR), commonly termed “business rates”, apply to properties that are not classed as a domestic property, such as livestock auction marts. There is a legal requirement to hold a revaluation of commercial properties for NDR purposes every 5 years. The 2010 revaluation came into effect on 1 April 2010 with all businesses having had their rateable values reassessed based on the valuation date of 1 April 2008. The purpose of the revaluation is to reflect changes in property market rental prices and is not intended as a means of raising additional revenues. In 2010-11, the poundage rate for Scotland will be 40.7p, down from 48.1p in 2009-10.

Livestock auctioneers play an important role in the agricultural industry, acting as a key player in the marketing chain from farm to farm and farm to end user. There are 32 auction marts around Scotland - 14 of them operate on a weekly basis and the rest on a seasonal basis. For livestock auction marts the basis for valuation for NDR is income in terms of gross commission. Rateable value is calculated by applying a particular percentage to gross commission earned by the auction mart. The percentage applied, changes with the size of the gross commission. However, other issues are considered along with percentages and total commission such as degree of local competition; the extent and nature of the catchment area; quality of yard and buildings; the appropriateness of the facility for the level of trade; type of sales.

The Institute of Auctioneers and Appraisers in Scotland (IAAS) argue that Scotland’s marts will be facing an average rates increase of 52% as a consequence of revaluation. They argue that the logic and basis of the valuation methodology for auction marts is flawed because the methodology was based on English rental values. They are also concerned about the lack of a transition scheme in Scotland.

The Scottish Assessors Association has explained that the percentages to be applied to gross commissions to calculate NDR for auction marts were indeed arrived at using mainly English rental evidence since no Scottish rental evidence for auction marts is available. However, they also state that IAAS were consulted on the methodology and the rental evidence before it was finalised, but that IAAS did not offer any comment at the time.

The rationale for a transitional scheme is that it should be cost neutral through phasing in the change in NDRs over a number of years. The Scottish Government has introduced such a scheme for previous revaluations, but not for the 2010 revaluation. The IAAS argues that Scottish auction marts are therefore operating at an economic disadvantage compared to their counterparts in England. The Scottish Government has argued that a transitional relief scheme would mean that eight out of 10 properties that would have seen bills fall would be worse off. The Government also argue that a consequence of a transitional relief scheme would be that the public sector would benefit at the expense of the private sector and that such outcomes are not desirable. There is therefore no transitional relief scheme in Scotland.
NON-DOMESTIC RATES

Non-Domestic Rates, commonly termed “business rates”, apply to properties such as shops, offices, warehouses and factories, and any other property that is not classed as a domestic property including livestock auction marts. The operation of Non-Domestic Rates (NDR) is governed by a range of legislation relating to the valuation of properties, collection of monies and administration of the regime. Responsibility for the operation of NDR is devolved to the Scottish Government. There are two elements to the calculation of non-domestic rates – rateable value of a particular property; and a national poundage rate set by the Scottish Government.

The rateable value and classification of properties is determined by the Assessor who in carrying out their function act independently of central and local government. The calculation of NDR involves an independent assessor valuing non-domestic properties used for business or commercial purposes. Generally, the assessor determines the amount that a non-domestic property would be expected to attract in annual rent (commonly referred to as the rateable value). This value is multiplied by a national rate poundage, set by the Scottish Government, to provide the level of payment payable by the business rate payer. For example in 2009-10 the standard poundage rate of 48.1p applied to businesses with a rateable value of £29,000 or below. A business with a rateable value of £20,000 would therefore pay business rates totalling £9,620 (£20,000 X £0.481 = £9,620).

Prior to 1989 the business rate poundage was set by local authorities. Since then rates have been set centrally. Local authorities collect the tax with the Scottish Government determining how the income from the ‘national pool’ is distributed between local authorities. The distribution of NDR is based on the relative population of each local authority as a proportion of the total Scottish population.

A wide range of reliefs apply to properties such as the Small Business Bonus Scheme and the Rural Rate Reliefs/Exemptions.

2010 REVALUATION

There is a legal requirement to hold a revaluation of commercial properties for NDR purposes every 5 years although Scottish Ministers do have a power to delay the revaluation. The 2010 revaluation came into effect on 1 April 2010 with all business having had their rateable values reassessed based on the valuation date of 1 April 2008. The purpose of revaluation is to ensure that the tax burden is distributed fairly by taking account of changes over time in market conditions and individual business circumstances (Scottish Government, 2010).

In 2010-11 the poundage rate for Scotland is 40.7p and the supplement paid by larger businesses (properties with a rateable value in excess of £35,000) is 0.7p. The poundage rate in 2010-11 is at its lowest rate since 1995-96 and is the same as set for England in 2010-11. For Scotland as a whole, £2,035,626,910 was collected from Non-Domestic rates in 2009-10.


2 Details of the role of Assessors and valuation methodologies for different types of property can be accessed from the Scottish Assessors Association website: http://www.saa.gov.uk/
All relief schemes in place in 2009-10 will continue to be in place in 2010-11 although the thresholds for the relief schemes may have changed, for example for the Small Business Bonus Scheme reliefs. In addition, a new relief has been introduced for renewable energy producers. Further information on the changes resulting from the 2010 revaluation can be found in a [key facts](#) section of the Scottish Government website (Scottish Government, undated).

**LIVESTOCK AUCTION MARTS**

Livestock auctioneers play an important role in the agricultural industry, acting as a key player in the marketing chain from farm to farm and farm to end user. There are 32 auction marts around Scotland - 14 of them operate on a weekly basis and the rest on a seasonal basis. The auction marts are operated by 12 companies, all of which are Scottish owned. The turnover of all Scottish marts in the year to 31st December 2009 was £500 million (personal communication, IAAS, May 2010). Other throughput figures for the whole sector for the year ending December 2009 are set out below.

<table>
<thead>
<tr>
<th>THROUGHPUT FIGURES FOR YEAR ENDING 31/12/09</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OVERALL TOTALS</strong></td>
<td></td>
</tr>
<tr>
<td>Stock Numbers</td>
<td>3,238,366</td>
</tr>
<tr>
<td>Throughput</td>
<td>£499,061,654</td>
</tr>
<tr>
<td>Average Unit Value</td>
<td>£154.11</td>
</tr>
<tr>
<td>Prime Stock Total Value</td>
<td>£222,622,749</td>
</tr>
<tr>
<td>Store Stock Total Value</td>
<td>£276,424,686</td>
</tr>
</tbody>
</table>

Source: personal communication IAAS, May 2010

There was a decline in the number of marts following the foot and mouth disease outbreak in 2001, when some closed and others consolidated. Since then the number of marts in Scotland has been relatively stable.

In [Practice Note 32](#) (Scottish Assessors Association, 2009) relating to the valuation of livestock auction markets for the 2010 revaluation, the Scottish Assessors Association (SAA) highlight a number of particular features of the sector. They note that:

- The 2007 Foot and Mouth outbreak which began in the south of England saw its spread force closure of marts in Scotland over the period August to October 2007.

- Livestock numbers through Scottish marts for 2008 were reported to be around 3.5 million and almost on a par for the year end prior to the 2007 FMD outbreak. 2007 numbers were around the 3.1 million mark. Higher prices have meant that, in general, the turnover per market is now greater than in the recent past.

- The best trading marts now tend to be those with good road connections, modern buildings and facilities located on the outskirts of a town with an extensive agricultural hinterland often with diversification into agricultural machinery and other associated sales.

- A crucial element to the success of any livestock mart will be achieved by economies of scale and, in order to achieve this, the operation needs to be of sufficient size with good...
well laid out buildings, situated on an out of town site but with good access to the road network. This is exemplified by the building of a new mart at Hill of Drip, Stirling.

- Older marts may suffer from the disadvantage of high running costs including effluent disposal, maintenance and greater bio security measures. Potentially higher overheads can erode profit margins and where such marts are in areas of low stock numbers the problem may be compounded.

**VALUATION METHODOLOGY FOR LIVESTOCK AUCTION MARKETS**

SAA Practice Note 32 (2009) sets out the valuation methodology for arriving at the rateable value for livestock auction marts in Scotland. This in turn is used as a means to calculate the business rates payable. The basis of valuation is the comparative principle where income in terms of gross commission is the accepted unit.

The rateable value of an individual mart is calculated by applying an appropriate percentage to the fair maintainable gross commission earned by that auction mart around the valuation date of 1 April 2008. The percentage to be applied varies with the amount of the gross commission. The percentages were set by the SAA and arrived at following analysis of the relationship between rent and gross commission for known let auctions marts around the UK. For example, if rent was £200,000 and gross commission was £1,000,000, the percentage derived would be 20%. Rental evidence for different sizes of marts has been used to arrive at the percentages set out in the table below. However, other issues such as degree of local competition; the extent and nature of the catchment area; quality of yard, buildings and facilities; the appropriateness of the facility for the level of trade; type of sales, are all considered before finalising the value.

The table below shows gross commission categories and percentages applied to each category for both the 2005 valuation and the 2010 valuation. This shows that for marts with gross commission over £300,000 per annum, percentage of gross commission has increased from between 10-12.5% to 10-20%.

Income derived from other sources such as lorry washes and parking, car boot sales, car auctions, etc, is also taken into account in the valuation. In the main, these adopt the same percentage of gross commission in 2010 as that adopted in 2005.
### GROSS COMMISSION AND PERCENTAGE USED TO CALCULATE RATEABLE VALUE IN 2005 AND 2010

<table>
<thead>
<tr>
<th>2005 gross commission categories</th>
<th>2005 % to arrive at RV</th>
<th>2010 gross commission categories</th>
<th>2010 % to arrive at RV</th>
</tr>
</thead>
<tbody>
<tr>
<td>c) less than £100,00 pa</td>
<td>6-7%</td>
<td>less than £250,000</td>
<td>7.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>£250,000-£350,000</td>
<td>10%</td>
</tr>
<tr>
<td>Markets which fall between a) and c) probably trading at about £200,000 pa</td>
<td>9-10%</td>
<td>£350,000-£500,000</td>
<td>12.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>£500,000-£750,000</td>
<td>15%</td>
</tr>
<tr>
<td>Above £300,000 pa</td>
<td>10-12.5%</td>
<td>£750,000-£1,000,000</td>
<td>17.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Above £1,000,000</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: [Practice Note 32](2010) and [Practice Note 32](2005)

### THE IAAS VIEW ON THE VALUATION OF AUCTION MARTS

The Institute of Auctioneers and Appraisers in Scotland (Institute of Auctioneers and Appraisers in Scotland, 2010b) argue that the logic and basis of the valuation methodology is flawed. They state that “rateable values are based on analysis of rental values and the IAAS understands that the SAA (Scottish Assessors Association), who calculate the rateable value, have little or no evidence to value Scotland’s marts and have as a result, based their proposed increased rateable values on inflated rental evidence from England.”

The SAA have explained that these percentages were indeed arrived at by assessing rental evidence from auction marts around the UK (personal communication, SAA, May 2010). There are around 30 rents available, the majority of which are in England. Some of these rents also relate to the larger, higher commission marts. The SAA argue that harmonisation with UK marts rates was important in the revaluation process, and that subsequent evidence suggested that these rental values are broadly in line with Scottish marts rents. For example, the actual rent of the new mart in Stirling is above the value arrived at during the revaluation exercise.

The SAA also provided information about the process of arriving at the revaluation practice note and percentages to be applied. Initial meetings took place between Scottish Assessors and their English counterparts, the Valuation Office Agency (VOA). Rental evidence was identified and the practice note and procedure for revaluation drafted. IAAS and their English equivalents, the Livestock Auctioneers Association (LAA), were consulted about both the available rental evidence and the practice note content and attended meetings with the VOA to discuss. Further consultation was also arranged between the SAA and mart operators under the auspices of the IAAS at which the practice note and rental evidence was further discussed. According to SAA, IAAS neither provided formal comment on the Practice Note nor provided further contrary rental evidence, despite being given the opportunity to do so.
INCREASES IN NON-DOMESTIC RATES FOR SELECTED MARTS IN SCOTLAND

IAAS argue that Scotland’s marts will be facing an average rates increase of 52% compared with a maximum of 12.5% in England. Increases applied to specific marts have been reported in various fora as follows:

- Thainstone Centre, Aberdeenshire: increase of £102,900 or 70% (Institute of Auctioneers and Appraisers in Scotland, 2010a and Scottish Parliament, 2010c)
- Stirling Agricultural Centre: increase over £33,000 or 52% (Institute of Auctioneers and Appraisers in Scotland, 2010a)
- Newtown St Boswells: Increase of £44,066 or 140% (Institute of Auctioneers and Appraisers in Scotland, 2010a)
- Dingwall and Highland Marts: Increase of £43,470 or 35.8% (Press and Journal, 2010)
- Forfar Mart: increase of £22,500 (Press and Journal, 2010)
- Milhill Mart, Stirling: increase of £23,205 (Press and Journal, 2010)
- Craig Wilson’s Mart, Ayr: Increase of £17,000 or 38% (Scottish Parliament, 2010b)

The IAAS (Institute of Auctioneers and Appraisers in Scotland, 2010b) argue that “the Westminster Government re-introduced transitional relief for auction marts in England for the 2010 Revaluation so that they only have to pay a maximum increase of 12.5 per cent. However, Scotland’s marts are set to incur the full cost immediately, since the Scottish Government decided no transitional relief should apply in Scotland. They are therefore operating at an economic disadvantage compared to their counterparts in England.”

TRANSITIONAL SCHEME

The rationale for a transitional scheme is that it should be cost neutral through phasing in the change in costs over a number of years. In other words, the degree of increase in a property’s NDR bill will be limited and the extent to which a decrease in NDR bills for properties whose valuation has declined is also limited. If a transitional relief scheme was introduced, the Scottish Government would seek to ensure that that these two processes are cost neutral over time, although previous schemes have tended to reduce income to the Scottish Government in its early years, which has been balanced by an increase in income in later years.

Broadly, the aim of a transitional scheme is to protect ratepayers who occupy properties from sudden increases in their bills in the period immediately following the revaluation. This should allow the occupier time to plan to accommodate the true [i.e. post revaluation] bill over a longer time period. Conversely, rate payers who should otherwise see a fall in their bills following revaluation would not realise their full saving as they would have without a transitional relief scheme. In effect they are subsidising the businesses whose bills are capped. As such any transitional relief scheme will always have supporters and detractors.

In 2005, the then Scottish Executive introduced a transitional scheme. The transitional scheme in 2005 applied for 3 years i.e. 2005-06 to 2007-08 although a scheme could apply for any period determined by Scottish Ministers. In 2005 the average Scottish increase in rateable value was 13.3%. The 2005 transitional scheme limited increases in bills to 12.5% in real terms.
and limited decreases to 10% in real terms. Full details of the 2005 Transitional Scheme are available from the Scottish Government (Scottish Government, 2005).

Transitional schemes have always applied to all businesses affected by a revaluation rather than particular sectors of the economy being targeted. The Scottish Government when considering implementing reliefs or a transitional scheme would require to consider the interaction of a scheme with State Aid regulations. The Scottish Government has produced guidance on this issue (Scottish Government, 2009).

Notably the guidance comments (p.4):

“Any measure intended partially or wholly to exempt firms in a particular sector from the charges arising from the normal application of the general system where there is no justification for this exemption on the basis of the nature or general scheme of this system constitutes State Aid. Therefore, where a tax measure distorts competition by favouring selected undertakings, for example, by region or by sector, then it breaches competition rules and constitutes State aid which should comply with the State aid regulations”.

In England it is a legal requirement to have a transitional scheme and such a scheme is in place. In Wales there is no such legal requirement to have a transitional scheme and there will not be such a scheme in 2010. There was not a transitional scheme in Wales in 2005.

TRANSITIONAL SCHEME – SCOTTISH GOVERNMENT POSITION

In Scotland there is no legal requirement to have a transitional scheme. A recent Scottish Government report (2010) sets out the case for and against a transitional relief scheme. It details the points considered by the Scottish Government in coming to its position that on balance, the merits of a transitional relief scheme for Scotland in 2010 were outweighed by the disadvantages. These points are:

- that all businesses in Scotland will have their rates bills reduced by well over £200 million in 2010-11 as a result of the lower rates poundage set, unlike south of the Border
- that the full amount of any saving should be passed on to those businesses whose rates bills fall following revaluation - the average saving to them is over £1,300
- that over half of all business in Scotland benefit from rates reliefs which are significantly more generous than in England
- that a transitional relief scheme in Scotland would have seen a transfer of funding worth just under £77 million from mainly small and medium sized businesses in the private sector to the public sector and larger private sector businesses
- and that a transitional relief scheme similar to the English scheme (upper cap set at 12.5%), would mean no savings (lower cap set at 0%) would have been passed on to any business and there would still be a shortfall of £58 million which would need to be met by the Scottish Government.

On 10 February 2010, the Cabinet Secretary for Finance and Sustainable Growth announced that the Scottish Government would not introduce a transitional scheme (2010a).


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