LOCAL GOVERNMENT COMMITTEE

Tuesday 2 November 1999
(*Afternoon*)

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LOCAL GOVERNMENT COMMITTEE
8th Meeting

CONVENER:

*Trish Godman (West Renfrewshire) (Lab)

COMMITTEE MEMBERS:

*Colin Campbell (West of Scotland) (SNP)
*Mr Kenneth Gibson (Glasgow) (SNP)
*Donald Gorrie (Central Scotland) (LD)
*Mr Keith Harding (Mid Scotland and Fife) (Con)
*Dr Sylvia Jackson (Stirling) (Lab)
*Johann Lamont (Glasgow Pollok) (Lab)
*Mr Michael McMahon (Hamilton North and Bellshill) (Lab)
*Bristow Muldoon (Livingston) (Lab)
*Mr Gil Paterson (Central Scotland) (SNP)
Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD)

*attended

THE FOLLOWING MEMBERS ALSO ATTENDED:

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)
Mr John Swinney (North Tayside) (SNP)

WITNESSES:

John Downie (Federation of Small Businesses)
John Sharp (Federation of Small Businesses)
John Cardwell (Scottish Assessors Association)
Duncan Chisholm (Scottish Assessors Association)
Bill Johnston (Scottish Assessors Association)
Duncan Gray (Scottish Executive Development Department)
Pete Hancock (Scottish Executive Development Department)
Bill Howat (Scottish Executive Development Department)
Allan Hogarth (Confederation of British Industry Scotland)
Iain McMillan (Confederation of British Industry Scotland)

COMMITTEE CLERK:

Eugene Windsor

ASSISTANT CLERK

Craig Harper

Scottish Parliament

Local Government Committee

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(*Afternoon*)

[THE CONVENER *opened the meeting at 14:02*]

Non-domestic Rating Revaluation

The Convener (Trish Godman): Good afternoon, colleagues. I would like to start, as today we have a heavy agenda.

It is incumbent on me to ask whether anyone in the room who will be taking part in the evidence-taking session has an interest to declare.

Mr Keith Harding (Mid Scotland and Fife) (Con): I own a small business.

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP): I own a small business and am a member of the Federation of Small Businesses, the Forum of Private Business and the Scottish Council Development and Industry. I pay them subscriptions, but none of them pays me any money.

Mr Kenneth Gibson (Glasgow) (SNP): I will declare an interest on behalf of my colleague Gil Paterson, who should be here any minute, if you want to move on, convener.

The Convener: I will remember that.

Donald Gorrie (Central Scotland) (LD): I should probably declare that I am a shareholder in a small business.

Mr Michael McMahon (Hamilton North and Bellshill) (Lab): Just to be on the safe side, I should say that I have a part-time researcher who is a part-time small businessperson.

The Convener: Anybody else? Kenny is not sure—if you are in doubt, tell us.

Mr Gibson: I was going to be facetious, but I will not bother.

Mr Harding: My personal assistant also has a small business.

The Convener: Bristow, you do not own a small business, do you?

Bristow Muldoon (Livingston) (Lab): Sadly, I do not.

The Convener: Before we continue, I welcome John Swinney and Fergus Ewing, who are here as members of the Enterprise and Lifelong Learning Committee. As this is a new Parliament, MSPs can attend any committee meeting to ask questions, and John and Fergus have chosen to come along today. I certainly have no objection to their being here. If they wish to ask questions, they will be allowed to do so.

The procedure is that once the presentation is over, members should indicate that they want to speak. They will be allowed a question and a quick supplementary, but if the supplementary question wanders all over the place, I shall bring the member back to order. The issue will then be opened for wider debate.

I welcome John Downie and John Sharp from the Federation of Small Businesses. They will give a presentation, after which we will ask questions.

John Downie (Federation of Small Businesses): We intend to give a 10-minute run-through of our proposals for a small business rates relief scheme. I hope that you all received copies of our paper from the clerk on Friday. We thought it best if you questioned us on all aspects of the scheme.

If there is one issue that unites small businesses throughout Scotland, it is business rates. On average, small businesses pay 10 times more in business rates than larger businesses in terms of profit and turnover. As a percentage of overheads, small businesses pay 13.7 per cent in business rates, compared with 3 per cent for large companies.

That is the main reason why we have proposed a small business rates relief scheme. We believe that it is imperative that a scheme be put in place to assist the smallest businesses in Scotland, and to foster economic growth.

We want to remove a disproportionate rates burden for small companies. Thirteen per cent of overheads is a major burden on small firms. That burden helps to stop economic growth in all sectors, but particularly in rural and remote communities, where it is felt even more. The tourism industry in the Highlands and Islands, the Borders, and Dumfries and Galloway has a short season, so small businesses there suffer very much under the burden of business rates.

Some months ago, the federation commissioned John Sharp, who is the senior partner in Graham and Sibbald, to investigate business rates, so that we had meaningful figures on which to base any proposal. Until then, it was difficult to get information on the detail of the business rate. It is available on microfiche—I must compliment the assessors department, which has given us the available information for us to assess.

To ensure that we had a cross-section of businesses in cities, towns and the country, John analysed Fife, Ayr, Central Scotland, Lothians and

Grampian. That analysis gave us the basis to put forward a proposal that considered businesses in town centres, in cities, and, in particular, in rural and remote communities, which need help most.

We do not want to get into an argument on the current basis of the tax. The federation will make representations on that next year, when we will be working on serious proposals for the new system of business rates. Our policy has always been to scrap the present system and to have one that is based on the ability to pay. We do not have time to do that before the revaluation.

Our conclusion from John's analysis was that 36.5 per cent of businesses throughout Scotland had a rateable value of less than £5,000. That clearly identifies the smallest businesses and the ones with potential to grow.

In 1997-98, Scottish business paid £1.327 billion in business rates. Based on the figure of 36.5 per cent, there are two options for introducing a rates relief scheme. We can increase the business rates for businesses with rateable values of more than £5,000, or the scheme could be paid for directly by the Scottish Executive. The cost for the first, basic part of the scheme would be £26.54 million.

In our second, and preferred, option, if there were an additional relief band giving relief to all properties with rateable values between £5,001 to £7,500, the number of businesses getting relief would be increased from 36.5 per cent to 47.1 per cent—nearly 50 per cent of the businesses in Scotland have a rateable value of less than £7,500.

There are two options for paying for such a scheme: business rates for businesses with a rateable value of more than £7,500 could be increased or the scheme could be paid for directly by the Scottish Executive, at a cost of £46.5 million in the first year. During the past five years, the Scottish Executive, and before it the Scottish Office, has paid £437 million in transitional relief, including £57 million in 1995-96 and £40 million this year. This morning, the Federation of Small Businesses received, as committee members may have done, a copy of the non-domestic rates transitional arrangements for Scotland, which points out that one fifth of businesses in Scotland still receive transitional relief. If we continue with the present transitional arrangements, we will put transitional relief on top of transitional relief for some businesses, which, quite frankly, is crazy.

We believe that the disproportionate burden of business rates should be removed from small businesses. Our main proposal is that all businesses with a rateable value of under £5,000 should get 50 per cent relief and that those with a value between £5,001 and £7,500 should get 25 per cent relief, paid for directly by the Scottish Executive from the Scottish block. We estimate that that will cost £46.45 million. Over five years, that is approximately £250 million, a saving of £200 million on the present transitional relief scheme. I am sure that when members question us on our scheme, transitional relief will feature heavily in our answers, because the current transitional relief scheme is not delivering benefits to small businesses.

We are happy to answer questions.

Donald Gorrie: Hitherto, I thought that there were two separate issues: the need to avoid sudden changes in transitional relief for big and small companies and the tilting of the scheme to help smaller businesses. As I understand it, your scheme, in effect, brings the two issues together. Is that right?

John Sharp (Federation of Small Businesses): That was not the original intention. I set out to examine the situation for small businesses. I did not produce this report with transitional relief in mind. However, I would imagine that a relief scheme of 50 per cent and 25 per cent would take a block of property value completely out of transitional relief. It would no longer apply.

I do not have figures on how many properties in that value band receive or would continue to receive transitional relief. Indeed, at this time, I do not even know where the assessors will be coming from in terms of the increase in rateable value for that band. That is for another day. However, in terms of potential appeals, the number of properties involved is significant. Such a relief scheme would identify the problems for small businesses and might also address the problem of transitional relief for 2000 and onwards. However, at the initial stage, it was never intended that the two would interlink. One is a consequence of the other.

Donald Gorrie: People such as the assessors have written to say that they are not unsympathetic to your point, but that they think that a clear cut-off point raises problems, in that many of the people whose rateable value is more than £5,001 would appeal. If, with advice from other people, we could devise a more gradual scheme that met the same objectives, would you be happy to go along with it?

John Downie: We would be concerned about the administration of the scheme. We would want it to be kept as simple as possible, to deliver benefits to small businesses. There are thresholds, exemptions and allowances for all forms of taxation, whether personal or business.

If we use the argument of the threshold, it is like saying that nobody wants to earn over £26,100 because they start paying 40 per cent tax. There will be a threshold for every form of relief that has been introduced. Forty-seven per cent of small business are under £7,500 rateable value. Once a business has reached that stage, it will have had the benefit and help to grow. It will get increased turnover and increased profits. The majority of those with businesses below £7,500 rateable value are owner-occupiers. They do not have the problem of increased rents for larger premises. It may be that, instead of buying bigger premises, they simply buy second premises, and continue to receive relief on two properties. There are options, but we do not feel that a threshold is a major problem.

14:15

Mr Gibson: How would your scheme impact on chains of small businesses, which might each employ two or three people? They might be in a dozen property locations in a local authority area, but be part of one company.

John Sharp: The difference between appendix A and appendix B illustrates that problem. I arbitrarily elected to take out advertising hoardings. The reason for that was that most advertising hoardings will fall into a category of below £5,000 rateable value, but are certainly not occupied by a small business. Most are occupied by major plcs, which derive a pretty good income. No system will ever be perfect, but the drafters of any legislation much take into account the categories of properties. They are not defined—I am sure that the assessors will advise on this—in valuation law. Hidden codes are there, however, and I think that they could be used. There needs to be an in-depth examination of the classes and categories.

Committee members can see that 1,512 commercial hotels are entered in appendix C of our document. I am not suggesting that that means that 1,512 hotels in the sample area are below £5,000 rateable value. The figure probably includes many bed-and-breakfast establishments. They will be owner-occupied, and will be trying to encourage tourism. I think that they benefit—and should benefit.

It is important to examine those cases in more depth. The whole purpose was to produce a sample with some meaning and substance, and which showed the number of properties and the cost of producing relief. That had never been done before. Anecdotal evidence was relied on more, and nobody had a handle on it.

Mr Gibson: On the question of how businesses near the margins are affected, my calculation from your proposal of 50 per cent relief for businesses with a valuation of up to £5,000, with a poundage of 48p, is that there would be a £1,200 reduction. Your proposal for business between £5,000 and £7,500 rateable value is 75 per cent. To clarify that, are you suggesting that, if a business is just over the margin—at £5,001 rateable value—it would pay 75 per cent, and have only a 25 per cent discount on the entire rateable value, or would it get a 50 per cent discount on the first £5,000 and a 25 per cent discount on the next £2,500?

John Sharp: The difficulty with setting any threshold and with any relief scheme is that there will be people at the margins who will be upset. That is the case with council tax banding for houses. I am sure that the Scottish Assessors Association can produce statistics on people at the band edges who appeal.

Valuation of properties, from £5 to £5 million, is done pretty exactly. The ratepayer has a right of appeal. There is no doubt that a ratepayer with a revaluation of £5,500—if the scheme came into operation—would appeal. The ratepayer with a business at £4,900 rateable value might not. That is a right that ratepayers have, and nobody is taking it away from them. The idea of phasing in the 25 per cent relief at £5,001 to £7,500 takes away the sudden guillotine effect of 50 per cent relief or no relief, but if one starts to tinker with that, on increments of 10 or 5 per cent—which one could easily do—it becomes a complex system to administer.

John Downie: Paragraph 4.5 in the Scottish Executive's consultation paper, "Non-Domestic Rates—Transitional Arrangements: Scotland", gives some percentages on transitional relief. I recommend that the committee consider the paper, as it talks about relief of 10 per cent, 7.5 per cent, 5 per cent, up to 15 per cent, 30 per cent and 35 per cent. No one has understood the system of percentages for relief for businesses; it is not directing the benefit to small businesses. We are in the process of simplifying a complicated system—we might not make it perfect, but it will be far better than what we have now.

The Convener: You have an advantage on us, as we do not have that paper.

Mr Gibson: Would that mean that someone with a valuation of £4,999 would pay £1,200, while someone with a valuation of £5,001 would pay £1,800? You should not say that they could appeal, as their appeal might fail. It is a disincentive for companies to grow, if an extra few pounds in valuation means that they will have a whopping great increase in the rates that they pay.

John Downie: We are trying to benefit small businesses. There are issues concerning the threshold; in that case, whether a business qualifies for the 50 per cent relief. However, as John Sharp says, people have the right of appeal.

If we direct the benefit to those companies and they are increasing their profits, they are gaining more money to pay the bills. No scheme will be perfect, but 47 per cent of small businesses in Scotland will get relief. However, there are businesses in the high streets of Glasgow or Edinburgh that are paying £50,000 on their rents. If businesses want to be on the Royal Mile and pay £50,000, that is entirely up to them. The new Sock Shop in Waverley station will pay a £25,000 rental for that small property.

We have taken that point on board, but businesses over the £5,000 level are not benefiting at the moment. We believe that, by bringing the threshold up to £7,500, they will benefit as they continue to grow. We are giving them the benefit at the base cost level to grow, when their rateable value is under £5,000, so that when the rateable value increases, it is much easier for them to start paying those bills.

Colin Campbell (West of Scotland) (SNP): In the Scottish National party’s manifesto, we set aside £90 million in rates relief out of the block grant, so I am fascinated to see that it could be done for just over half that sum. That would have left a bit of loose change.

You mention that you could increase the business rate for businesses with a rateable value over £7,500. Are you doing that to fly a kite or as a fallback? In the end you conclude that the money should come from the block grant. Are you suggesting a fallback position?

John Downie: As I said in the letter that we sent to Jack McConnell, one of the key considerations is fairness to all business rate payers. Considering the economic conditions, we do not want to put an increased burden on medium-sized and larger companies. The Scottish Executive might in the end want to make that decision. We believe that we need to be fair to all business rate payers and bring in the issue of affordability, and that paying the £46 million direct is the best option.

Mr McMahon: This follows on from Colin’s point. Do you accept that the burden has to go somewhere?

John Downie: Yes.

Mr McMahon: You say that the burden should fall on the block grant and that you do not want the burden to fall on bigger businesses. What element of the block grant do you think should be cut? What part of the block grant would go to help small businesses? Or would you prefer increased taxation?

John Downie: We prefer increased taxation, but helping small businesses at this level can lead to increases in turnover and profit, increased jobs and an increased tax share. Trying to foster economic growth will cost the Scottish Executive in the early years. It will pay dividends in the next five or 10 years if we encourage existing small businesses to grow, and if we encourage small business start-ups. We will not see the benefit in the next two or three years, but we should start looking more at the long term in creating more jobs and businesses, because that will increase the amount of tax payable to the Exchequer.

Mr McMahon: Some small businesses are landlords. Do you want to see rents connected to revaluation? Those who are landlords would want to see a connection between revaluation of rents and the rates that they pay.

John Sharp: Many small businesses are owner-occupiers, such as small family-run newsagents. No one can argue with an assessor’s valuation, so the right of appeal cannot produce the result that those ratepayers want. If a shop has a rateable value of £4,500, any reduction that could be negotiated would be minimal, although the rates burden is large in relation to the cost. At the other end of the scale, there are the Hyundais of this world, which have rates valuations of hundreds of thousands of pounds. Negotiation could result in a saving of £50,000 to them.

It is all relative, and no appeal will satisfy the small business rate payer who is an owner-occupier. The tenants of those who are landlords are, however, likely to pay the rates bill.

Mr Gil Paterson (Central Scotland) (SNP): I would like to declare an interest on two points. First, I was responsible for taking the Government to the European Court of Human Rights because of a rates disparity. I have had a keen interest in rates since then. I also own a business, and this debate might affect the amount of rates that I pay, although I have a feeling that the effect will be adverse. The business is spread throughout Scotland.

I am in favour of helping small businesses, and would like to say something connected to the question that Kenny Gibson asked. Could the narrow banded system that you have be expanded? There is disquiet in some small businesses because of the amount of their profits that goes towards paying rates. The amount of rates that some large businesses pay is not significant, so perhaps the burden could be shifted away from small businesses. Some of them are on a cliff edge, which they might fall off.

John Downie: In the last two revaluations, the Scottish Office decided that small businesses with a rateable value of less than £10,000 should get a certain percentage of relief. That £10,000 defined the difference between small and large businesses. This year, the figure will be £12,000.

When we did our initial analysis, we found that there was a fine line between helping as many small businesses as possible and helping national chains that have small retail outlets. They tended to have a rateable value of just over £7,500.

We decided that helping 47 per cent of the smallest owner-occupier businesses was the best option. We could expand the scheme, but that would cost more. The option that we are suggesting could be tweaked, but the valuation figures would have to be examined carefully, to establish how many more businesses that would bring in.

14:30

John Sharp: When we set off, we knew that a threshold of £10,000 had been proposed for transitional relief. A problem arises because of the number of properties that would fall into that category. The statistics were not easy to come by because, historically, a lot of the assessors' records have not been kept on CD-ROM, which is the best way of getting information for such an exercise. The records are mainly on paper or on microfiche. That may change before the revaluation exercise and data may become more easily available, but we had to start somewhere and we needed something that was credible and did not result in high costs for other ratepayers. That is why we started at £5,000 and then went up to £7,500.

The system can be tinkered with around the edges but it provides a fairly strong framework for providing relief for 47 per cent of the rate-paying public at a 2 per cent cost. Where that 2 per cent cost comes from, whether from the block grant or from a 2 per cent increase in the uniform business rate, is a matter for other people to decide, but the cost is not huge.

Fergus Ewing: I commend the Federation of Small Businesses on the work that has gone into these substantial and useful proposals. The SNP is keen that there should be a workable scheme to help small businesses in Scotland deal with the discrimination that is mentioned in the FSB's opening remarks. Small businesses pay perhaps five to 10 times as much in rates as do larger businesses. If the Executive comes up with no scheme to help small business, but does come up with a scheme for transitional relief, would that level of discrimination against small business be affected in any way?

John Downie: It would not be affected. We would still have it. Members of the committee may not have seen the consultation paper that we received this morning. In paragraph 5.1, the Executive quotes figures that show that there is a disproportionate burden on small businesses. In paragraph 5.6, it admits:

"The very largest properties are therefore better able to face bigger increases in their bills."

As a percentage of overheads, business rates for larger companies are minimal and they can afford to pay those bills.

Paragraph 4.2 states:

"The Executive believes that ratepayers who stand to gain from the Revaluation through decreases in their bills should, in principle, bear the costs of protecting those who face large increases."

What will happen is that businesses whose bills are decreased will find that there will be increases in some shape or form to cushion the businesses that have large increases. If the scheme is put into place, transitional relief will therefore not benefit anyone.

Fergus Ewing: We have not yet seen that paper, but that seems to demonstrate that the Government accepts that bigger businesses pay proportionately less in business rates than small businesses. We must find out how to remedy that.

In your earlier comments, you drew a distinction between the cost of administering a scheme of rates relief that has 50 per cent and 25 per cent as the two multiplicands, and the cost of administering a scheme that has a far greater tapering effect with percentage blocks of 5 per cent or 10 per cent going from 50 per cent down to 5 per cent, which would deal with the points raised by Mr Gibson and Mr Paterson about removing the £600 threshold penalty between £5,000 and £5,001. Given that the scheme will be administered by computer by the directors of finance, would it make any difference to the computer whether only two multiplicands were input or whether 10, 15 or 20 were input?

John Sharp: I would love to think that it would not. The problem with calculating and understanding a rates demand with transitional relief is that there are complications when there is any kind of banding. In a revaluation year, the final date for settlement of appeals will usually be some three years later. That means that calculations go back three years through transitional relief and banding down.

Having to calculate that for a client would terrify me, because understanding the demands and doing the calculations is really hard just now. An added problem for someone who is, if you like, at the coalface and has to try to understand these things, is that transitional relief changes every year. Nobody knows who is going to change it or what it is going to be. If you have different levels of TR for different levels of rateable value—or if you have banding, as you are perhaps suggesting—it will, unless it is greatly simplified, be a nightmare, and mistakes will be made. Some people—perhaps chartered accountants—will make a lot of money out of it; chartered surveyors will not.

Dr Sylvia Jackson (Stirling) (Lab): First, I am concerned that, yet again, we do not have a paper to study, which would have been useful.

Leading on from what Fergus Ewing said, are there any disadvantages, apart from this administrative one, in having a more tapered scheme rather than one with thresholds?

John Sharp: No. The idea exists already in domestic rating, and there is council tax banding. The issue is simply one of administration and of clarifying the rates demand, which could be done. Mr Gibson made the point, which I take on board, that if you have a threshold scheme with 50 per cent and then 25 per cent relief, the answer may be to have a slicing arrangement—as there is with income tax. That would certainly ensure equality: at a threshold, or just over a threshold, there would not be an increase in payments.

These are all matters of fine tuning. The principle is perhaps different from any previous approach to relief.

Bristow Muldoon: I would like to go back to the point that Michael McMahon raised about the means of funding your proposals. You have suggested two options: one in which there is a differential rate for larger businesses; another in which the Scottish Executive provides the funds directly. How did you balance your thoughts in coming to the conclusion that the Scottish Executive should fund the proposal?

In your answer to Michael McMahon, you suggested the potential for increasing taxation in other areas. By that, did you mean that increased taxation would be generated as a result of business growth over the years, or did you mean that there should be increases in personal taxation?

John Downie: We are saying that if small businesses are growing, increasing their turnover and profits, and taking on more staff, there will be more income for the Exchequer from taxes. That income will come from the businesses and from the people who work for them, through personal taxation. That is a long-term issue that should be considered. As John Sharp said, the scheme that we have designed is fairly simple and delivers direct benefit. We had discussions on the issue of larger companies. As the Scottish Executive paper says, they can afford to pay these bills.

You asked about balance. We looked at the figures for transitional relief for the past five years. In total, we are paying £437.2 million. That came from the business rates paid by Scottish business. We are saying that the Executive is using the income from the rates to pay for the relief scheme. We are suggesting that it should pay that money directly rather than by using the tapered transitional relief scheme.

The figures that the Scottish Executive came out with in its consultation paper this morning were neutral. The Executive does not want to increase tax for larger companies, but it does not want small companies to benefit, so there is no benefit for anyone. We are suggesting that for a relatively low cost we could foster economic growth that will benefit Scotland in the next five to 10 years. We can afford that cost. We have to balance things and make a decision. What do we want? Do we want more jobs and businesses? That will not happen without help. Businesses need help to grow from small to medium to large. Someone will have to pay for that help, and our view, on balance, is that it would be better for that help to come from the Executive, directly from the Scottish block, rather than from larger companies. Larger companies are under pressure. In the past six months, many large companies have gone under.

Mr Harding: I do not know how soon you expect a decision on this. It is unfortunate that we must address two issues. The first is revaluation, which is imminent; the second—which I would like to happen—is the reduction in rates, which is of benefit to business. No decision on that will be reached until after next April. My concern is that if we pursue revaluation and the reduction in rates at the same time, revaluation will throw up some anomalies, particularly under your scheme.

For example, if a business is in the wrong place at the right time, or the right place at the wrong time, there will be huge increases or decreases in its valuation. In those circumstances, the revaluation of a company that is in dire straits may be negligible. If it is below the threshold of £7,500, it will already have been receiving a reduction in ratesm and will still benefit under this new scheme. The rates for a company in a highly desirable area, which has increased its rateable value substantially, could climb dramatically and the scheme would not help it, as its revaluation would take it above the £7,500 threshold. How would you address that situation?

John Sharp: The figures that were issued today by the Scottish Executive show that the effective revaluation will be about 13 per cent. That suggests that the uniform business rate will be reduced by 13 per cent, which is not significant compared with a ratepayer with a static rateable value. If the transitional relief proposal is that a ratepayer whose value decreases should not benefit, but should subsidise a ratepayer whose rateable value has risen—I am not in favour of that—the benefit will not be reaped by the small business whose rateable value has decreased unless a scheme such as this is implemented.

Mr Harding: I acknowledge what you are saying. I am one of the lucky ones: I saw the paper that you are talking about today. It talks of an average increase of 13 per cent. Some increases will be below that and some will be far above it. Under your scheme, some people will benefit who should not, and others who should benefit will not.

John Sharp: I think that any property that has a rateable value of £7,500 or less—particularly if that value is £5,000 or less—must be a poor type of property. If a pub, hotel, guest house or shop has a rateable value of £5,000, it must be pretty small. It will not be occupied by a branch of the Woolwich or a Thorntons sweetie shop. It will not be a public limited company; it will be a small business indeed. I do not think that the effective revaluation will push many more businesses in that direction.

I fully accept that the high streets will show a much higher increase than the 13 per cent that has been indicated, that a lot of properties will remain static, and that the figure for some will be reduced, but not many will experience a significant reduction.

Mr Harding: You said that the figure for some properties will remain static. If inflation is taken into account, those businesses will already receive a reduction in rates, but you are going to give them more, to penalise the properties whose rateable value exceeds £7,500. Is that what you are saying?

John Sharp: Yes.

Donald Gorrie: We would like to find a viable way in which to help small businesses, if we can. The CBI paper says that there is a risk that landlords would merely put up rents if the rates were reduced. I am not here to help the landlords. Could you comment on whether you think that is a real danger and on how we could avert it?

John Sharp: Where enterprise zones were introduced in Scotland, no rates were payable for several years. Cases have been brought before the valuation appeal courts to urge that, at the end of enterprise zone status, there should be a material change and a down valuation in those properties.

I cannot remember whether those cases were successful, but the argument is pretty spurious. I accept that any occupier of property will take cognisance of occupational costs such as rent and rates. I do not believe that at £5,000 of rateable value, which suggests an annual rent of £5,000—or £100 a week—people are that clued up. People are not plcs; they have neither balance sheets nor that degree of foresight. I constantly warn members at Federation of Small Businesses meetings that if they have just agreed a rent review at x, they can hardly appeal their rateable value at half-x. Such a perception is not prevalent in the high street multiples.

Landlords will not be able to exercise pressure on occupiers who are getting 50 per cent rent relief to make them pay more rent. A lot of the properties will be owner-occupied.

14:45

The Convener: My next question somewhat veers away from what we have been talking about. We have received letters and written reports from other groups. I have a question from one such group that shall remain nameless, although you will probably know which group it is when I read its comment. Although you have already answered the group's concerns about rents, it then suggests:

> "Small businesses also possibly need better advice on, for example, increasing turnover, controlling stocks and costs, including property overheads. Such advice could well achieve more than a flawed rate relief scheme".

Do you have any comments on that? I appreciate that that is quite different from the questions that have already been asked.

John Downie: What that group is basically saying is that big business is better managed than small business, which is a view that I do not agree with at all. Although John Sharp runs a small business, nobody would say that his business was not as well managed as BT Scotland.

How would we put such a scheme into place? At the moment, the Enterprise and Lifelong Learning Committee is investigating business support services. We already have a multitude of schemes that are supposed to be helping businesses, but are not. Quite frankly, the point that you quoted is facetious.

The Convener: Thank you. Before you go, I want to reiterate what Fergus and Donald said. The committee seeks a fair and workable scheme, which is why we have decided to respond to your difficulties. I will say in support of the Scottish Parliament, which gets more bad publicity than good, that it would have taken a long time for this meeting to have happened in Westminster. Although we might not have come up with any answers for you today, we have heard your evidence and have been delighted to ask you questions. In fact, we might ask you to return to clarify some points. You have been very helpful. Thank you very much.

We now have Bill Johnston, Duncan Chisholm and John Cardwell from the Scottish Assessors Association, who will give a short presentation and then take questions from the committee. Committee members will ask you one question with perhaps a supplementary. If we have time at the end, we might return to some points for clarification.

Duncan Chisholm (Scottish Assessors Association): I want to thank the committee for its invitation. I am the president of the of the Scottish Assessors Association, John Cardwell is the vice-president, and Bill Johnston, as the secretary, does all the hard work.

Although we have provided you with a briefing note, if you will indulge me for a minute or two I will elaborate on some aspects of the association, as this is the first time we have come before a committee of the Scottish Parliament and perhaps the first time you have met an assessor in the flesh—we do exist and are not faceless bureaucrats.

Each valuation authority must appoint an assessor, who must be a chartered surveyor. The duty of an assessor is to form a professional judgment, within the law, on the valuation of all rateable property—we do council tax banding as well. That judgment is subject to scrutiny by the general public and by three separate tribunals or courts—the valuation appeal panels, the Lands Tribunal for Scotland, and the Lands Valuation Appeal Court, which is an appellate division of the Court of Session.

In exercising his statutory duty, the assessor is not an officer of his employing authority, but has a quasi-judicial independence, in that his opinion of value must be clear of political influence of any description. That cuts both ways, for in freeing the assessor from political direction, the elected member is freed from any responsibility for the sometimes unpopular exercise of the assessor's functions.

That is the true character of what is sometimes called the assessor's independence. It is often misunderstood as characteristic of a non-accountable official, who answers only to himself. The truth is that the assessor is answerable to every individual ratepayer and council tax payer, and must uphold his actions by adhering to statute, as interpreted by the courts.

By law, assessors must be members of the Royal Institution of Chartered Surveyors, but the law demands that assessors act in harmony, with uniformity of approach and method. Paradoxically, perhaps, they must defend what they do from their own analyses—largely on local evidence from within their valuation areas.

The Scottish Assessors Association draws its members from assessors and deputes, and operates extensively throughout the year, by plenary session and working party. Although it is an ad hoc body, we like to think that it is widely recognised as the consultative body on matters of valuation for rating, council tax, and electoral registration.

The association responds to policy as it finds its way into legislation, and endeavours to provide an independent practitioner's view of Government proposals, or proposals of organisations such as the Federation of Small Businesses. Therefore, what we say is necessarily restricted. Fortunately for the association and for me, the decision as to whether the federation's proposals are worth adopting or pursuing further lies elsewhere.

My first concern is that the data on which the scheme is based are restricted. As I understand it, the detailed breakdown of the number of properties within categories of use with a rateable value of £5,000 or less has been supplied for only five of the 14 valuation areas. A more general breakdown for the whole of Scotland, excluding the Highlands and the Western Isles, was also available. An extrapolation has been made from the restricted statistics to estimate the effect of the proposal for the whole of Scotland.

As I am not a statistician, I do not know whether that is statistically sound but, as a simple surveyor, I urge caution. It is our view that the sample may not be fully representative. Also, the imminent revaluation will result in new levels of value coming into effect on 1 April 2000. Perhaps you will receive a submission from a statistician that will be of assistance later.

Early indications are that there will be a general increase in total Scottish rateable value of between 10 and 15 per cent. It is known that there are wide variations within categories and geographic areas. The number of properties within the proposed band and the effect that that would have on any scheme cannot be predicted accurately.

The analysis on the five sets of figures relies heavily on the Ayrshire assessor's classification by description. That classification system is not used by all assessors and therefore careful consideration of the statistics would be required. If the scheme were to be adopted as policy, we suggest that it should rely on definitions rather than descriptions.

Our second concern may be described by some as selfish. Experience from previous revaluations has shown that a culture exists that causes ratepayers to appeal against the figures notified by the assessor. It is thought that appeals may be lodged for around 65 per cent of properties at the forthcoming revaluation.

In his letter to the Federation of Small Businesses, Mr Sharp of Graham and Sibbald states:

> "The difference in rates payments between one of your members with a shop with a rateable value of £4,500 and one with a rateable value of £5,500 is going to be

enormous".

That was alluded to earlier and it is our view that it can be anticipated that the level of appeal for properties close to any cut-off point will be substantial. The resultant appeal work, including negotiation, discussion and possible hearing by the valuation appeal panel, may increase substantially at this lower level of valuation. Levels of value marginally above the cut-off point will undoubtedly be closely contested.

In closing, I thank you, convener, for your courtesy. I will respond to any questions that members wish to ask.

Mr John Swinney (North Tayside) (SNP): I understand that the association's comments have focused on the submission made by the Federation of Small Businesses. Legitimate points were raised, but I will now raise wider issues.

Does the Scottish Assessors Association recognise the concerns that have been expressed by the FSB about business rates and the disparities that exist between properties? Is the general view of the association that the current system and the approach to the revaluation raise no issues of public concern?

Duncan Chisholm: As members of the general public, we are fully aware of what is going on, but we are constricted by the legislation as to what we can and cannot take into account. The vast majority of properties are valued on the comparative principle: a valuation based on the level of market rents, which we analyse and then apply to come up with the rateable values or net annual values of the properties.

Many of the factors that affect businesses are reflected in the market itself. If something is reflected in the market, in the sense that it has a downward effect on the level of rent of one shop or public house compared with another, that will be reflected in its valuation. We cannot, for example, take into account ability to pay.

Mr Swinney: My question is more about the policy issues. I accept that you implement regulations and statutes that are provided for you, but do you recognise the concerns of the small business community about the disparities that exist within the system? Do you think that those need to be addressed by this committee, the Parliament or the Executive?

Duncan Chisholm: Their concerns are understood by the Assessors Association, in that we meet many of the business groupings, such as the licensed trade, self caterers and local hoteliers. Our association has a long and proud record of not putting forward any policies of our own, as we could then be seen to be favouring one group of ratepayers over another. As I said in my presentation, we are happy to respond if someone says, "This is a suggestion that this group of ratepayers has brought forward, what do you think of it as a practitioner?" We are perfectly happy to give our tuppenceworth, or shillingsworth, at that time.

Mr McMahon: In the previous presentation that we had from the FSB, it seemed to be keen to differentiate between multiples and owner-occupiers. In terms of the transitional arrangements, is there any way of getting information from the businesses' annual returns to assist in the evaluation?

Duncan Chisholm: The directors or heads of finance services use the assessment roll to compile the bills. That is based on the valuation roll, which shows proprietor, tenant and occupier. The ratepayer is the person who is lifted from the valuation roll for the use of the head of finance. Obviously, in any system a flag could be attached to those premises that are owner occupied, but when we gather information on behalf of the heads of finance, which we do regularly, we record only the names of the proprietor, the tenant or the occupier.

15:00

Mr McMahon: You were talking about your ability to follow up statistically what is happening with the revaluations. Is there no way of categorising businesses as either urban, city centre businesses or rural, village ones?

Duncan Chisholm: I am sure that there could be a system for defining a city centre shop. However, if we decided that Princes Street and George Street were principal shopping streets, there would be dispute about whether Shandwick Place was a principal or a secondary shopping street. What we are saying is that any scheme based on a definition—even based on specifying where the line should be drawn—would be simple to implement. However, if we leave any room for dubiety about where the line runs, we will end up in an argument.

Donald Gorrie: I want to pursue roughly the same line of questioning as Michael McMahon. If the committee wanted to help struggling small businesses, would you advise us to adopt clear-cut definitions? You used the term definitions rather than descriptions, so that, as Michael was saying, a chemist shop might be included but not a petrol station. Alternatively, given your concern about businesses appealing to be placed below the step, do you suggest that we introduce a more tapered scheme that would take into account ability to pay as well as the size of the business? Do you want to recommend one or other of those systems?

Duncan Chisholm: John Sharp said that he would exclude advertising hoardings. In an effort to assist John with his analysis, the assessors from the five areas have tried to compile their statistics to fit in with his definition of, for example, commercial public houses. However, we would prefer to have a definition of which properties were excluded, based either on the identity of the ratepayer or on the category of use of the property. In the interface between council tax and the non-domestic valuation roll, there are many regulations that define, for example, bed-and-breakfast accommodation. Parliamentary draftsmen are quite adept at providing us with workable definitions.

Sorry, I have forgotten your second question.

Donald Gorrie: I asked whether there should be a tapered scheme that would avoid the need for a step and might take account of ability to pay as well as the size of the business.

Duncan Chisholm: On that point, John Sharp had a dig at the chartered accountants, some of whom may or may not be around this table. We are only poor chartered surveyors. One would need a form of accounting procedure that determined ability to pay.

The Federation of Small Businesses published a report in 1992, "Removing the Business Rate Burden", which I managed to get a copy of only this morning. It says that there are three ways of looking at this, two of which are a bit iffy because they do not use the same accounting procedures. Any scheme would have to be careful about what would or would not be included in ability-to-pay calculations.

Mr Paterson: Given your expertise, would it be possible for you to make a calculation based on out-of-town developments? Many people are concerned about the amount of energy that is used and the pollution that is produced by people getting to out-of-town developments.

Another problem is that out-of-town developments take business away from urban shops, which then go out of business. That means that fewer people are left to pay rates. Could you advise us on how to address that situation?

Duncan Chisholm: Contrary to what John Sharp said, assessors live in the 20th century and we use methods other than pen and paper, although not all of us have super-duper computer systems—we are all funded by local government—and we do calculations with pen and paper at the end.

We could provide statistics on the value of out-of-town developments, rural developments and other properties. All the valuation rolls are compiled geographically anyway and localities can be easily identified.

John Cardwell (Scottish Assessors Association): The valuation system will reflect the effect that an out-of-town shopping centre will have on local shopping. The problem can affect urban areas as well as rural ones. Small shops in cities have suffered when supermarkets open and rents do not drop. That will be reflected in the next revaluation. A supermarket on the edge of a town can have a substantial effect on the levels of value in the town. The levels of value will adjust to reflect market conditions.

Mr Paterson: Superstores earn big bucks and small stores do not. I would like a political decision to be taken to shift the rates burden to the out-of-town operations. Could you provide me with relevant information?

John Cardwell: The purpose of a revaluation is to change the burden of rates. If the system operates properly, the burden will fall on the more successful businesses because they are the ones that pay higher rents. Out-of-town shopping centres probably pay higher rents than businesses in the town centre.

The weakness of any property taxation system is that it does not relate directly to ability to pay. The argument about whether small businesses pay a larger percentage of their total income than larger businesses does need to be addressed.

Fergus Ewing: I was encouraged to hear that the degree of sophistication of the valuation roll administered by the estimable assessors is such that a slightly more complicated scheme than the scheme that the Federation of Small Businesses told us about today could be coped with. The FSB recommended a scheme whereby there would be 50 per cent relief up to a rateable value of £5,000 and 25 per cent relief from £5,000 to £7,500.

Without suggesting that this is SNP policy, I must say that it seems to me that there could be 50 per cent relief up to a rateable value of £5,000, 45 per cent relief up to £6,000, 40 per cent relief up to £7,000 and so on, in a stepped system. In that case, the second of your objections—that the system would create appeals—would no longer apply because the amount that people would save by a successful appeal would be so small as to be de minimis.

Do you think that that tapered system, which would involve reducing the amount of relief as the rateable value increases, could be administered easily simply by using a more sophisticated computer programme than would be required for the scheme that was proposed by the Federation of Small Businesses?

Duncan Chisholm: I would imagine that that is the case. I am not a computer expert but, if the scheme were based on the rates payment, I am sure that the heads of finance would ask for hundreds of thousands of pounds for new computer systems to handle it. Computers can be shown to do virtually anything, if there is a will to have something done.

Fergus Ewing: And your second objection would not apply?

Duncan Chisholm: Our experience with the council tax suggests that we would still get plenty of appeals at the boundaries.

Fergus Ewing: The alternative to a relief system would be that instructions would be given to you as to how the valuation process should be conducted. Could you confirm, for the record, that, under the Local Government Finance Act 1988, the First Minister, in succession to the Secretary of State for Scotland, has powers to instruct you as to how to carry out your task if, for example, it were felt that the rateable values of supermarkets were too low and those of hotels or licensed premises were too high?

Duncan Chisholm: The First Minister's powers are wide-ranging. He can prescribe the way in which we arrive at the valuations and the difference between net annual value and rateable value, as has happened in the past with petro-chemicals.

Mr Gibson: What do you think is the impact on rates of the 50 per cent subsidy that is given to empty properties? Do you think that that has the effect of artificially keeping rate levels high? To what extent does the policy impact on businesses that do not have empty properties?

Duncan Chisholm: From the assessors' point of view the empty rates have become a nuisance. When the property was vacant, people were loth to lodge a valuation appeal. When the property became occupied, the new tenant had a right of appeal. Now that the owners have a liability, they pursue appeals on rates on empty properties.

There is insufficient evidence to allow us to say whether that affects the market. There is anecdotal evidence that, at least south of the border, people are offering properties for little or no rent to avoid the landlord's empty rate.

Mr Gibson: Are you saying that landlords do not keep rents artificially high in order to secure loans, for example? The 50 per cent relief on such properties impacts on other businesses because the money that is not being gained from those properties being used has to be raised from other businesses.

Duncan Chisholm: I do not quite understand the question.

Mr Gibson: If a property is half-empty, only, say, £5 is raised from it instead of £10 and the other £5 has to be raised from the other businesses. I was asking about what impact the fact that properties lie empty has on other businesses.

Bill Johnston (Scottish Assessors Association): I am not aware of that being a problem. If anything, the opposite would happen: the landlord would be keen to cut his losses and accept a lower rent to have his property occupied.

Mr Gibson: My understanding was that the problem that I was talking about was an issue in Edinburgh. I am reassured by your suggestion that it is not a problem.

Bill Johnston: I am not aware of it being a problem.

John Cardwell: I know that this might be seen as breaking the party line but I think that there are problems. Consider a small shop in a tertiary shopping street. It might become obvious that, due to a change in shopping patterns, that shop will never trade again. Many shops in the street might be in the same position. Obviously, assessors have to consider the rental value. The owner is liable for 50 per cent of the rates on the property, and must continue to pay. It is very difficult to see how the owner could gain any income from the property. That matter needs some thought.

Mr Gibson: Other people are arguing for 100 per cent relief, based on your argument.

John Cardwell: Yes. In the case of small shops, the bigger problem is when an owner is liable for rates on a property from which they cannot possibly derive an income.

Mr McMahon: Is the quinquennial nature of the revaluations sacrosanct? Would a cycle of six or seven years have a detrimental effect on businesses? Are your data on the percentage of appeals accurate enough to know whether there would be a difference if the cycle were changed?

15:15

Duncan Chisholm: As a practitioner, I would not recommend extending the cycle beyond five years. The normal rent review pattern in Scottish leases is five years. Before the 1990 revaluation in England and Wales—we had one at the same time—there had not been a revaluation for 17 years and there were huge changes all over.

The Royal Institution of Chartered Surveyors published the Bayliss report, which recommends a shorter revaluation period of three years. Mr Cardwell mentioned the swings in market values. A shorter review period would allow those swings to be reflected in the rateable value more quickly. There are practical difficulties in shortening the period, in terms of dealing with appeals and gathering information on which to base the analysis.

Mr McMahon: I think that Mr Chisholm said that he expected something like 64 per cent would appeal.

Duncan Chisholm: 65 per cent.

Mr McMahon: How much of an impact does that have on your staff resources? Is that what you work on?

Bill Johnston: Dealing with revaluation appeals ties up the staff for about three years.

Mr McMahon: Does that mean that, if we changed to a three-year review, the three years of appeals would be dealt with during the three-year period of the revaluation? Surely an extension would help that.

John Cardwell: It would help in terms of managing resources, but the effects of the revaluation would be much more dramatic.

Mr McMahon: Swings and roundabouts.

Donald Gorrie: Following on from the answer to a previous question and from the CBI statement, would it be sensible for us to suggest that the First Minister use his powers to instruct your staff that out-of-town shopping centres should be rated more highly, but that the sort of shops that Mr Cardwell described should be rated very low? We should try to tilt the playing field in that way rather than having a level playing field with rebates.

Duncan Chisholm: I would prefer to have a pure valuation roll, based on market evidence and our assessment of that evidence. If there is scope to provide assistance, that should be done through the rating system rather than through the valuation process.

John Cardwell: It would create great practical difficulties to make such a change to the valuation system. There are different levels of effects and the First Minister would have to make a decision on every shopping centre and street. It would be very difficult. A rebate scheme would be preferable.

Donald Gorrie: I have a point to pursue and it may be a parochial one. My understanding is that in some areas of Edinburgh where the local shops have suffered in the way that Mr Cardwell described, the rents have stayed up and market forces do not work. Charity shops get blamed for that, probably incorrectly. In your experience, does the market work, so that when a shopping centre is in decline the rents go down?

John Cardwell: The revaluation shall take place from April. From the first figures for Edinburgh that I have seen it is clear that some shopping streets have decreased in value. One of the problems is the time that it takes for rent changes to work their way through the system. Changes are not instantaneous, and I suspect that in some cases occupiers of tertiary shopping streets are not as well advised as other occupiers, and they pay rents that are too high for too long. In the fullness of time, the market should have an effect.

Mr Paterson: The Forum of Private Business in Scotland produced a paper on this matter. Did you receive it and, if you did, do you have any comments to make?

Duncan Chisholm: We have not received that paper. Indeed, we only received the paper "Removing the Business Rate Burden" by the Federation of Small Businesses while we were in the waiting room this afternoon.

Mr Paterson: I see. It would be unfair of me to ask you to respond to the document. Could you give us a written submission if we give you a copy of the document?

Duncan Chisholm: Yes.

Fergus Ewing: Convener, would it be in order to raise a general point? I understand that there are two representatives of the Forum of Private Business here today. I have received a detailed paper from the forum, which proposes an alternative method for providing help to small businesses. I hope that I am not stepping on any procedural toes, but given that they are here today and that they have well-thought-through proposals, I would like to hear their evidence. Would that be possible?

The Convener: We are about to take a comfort break, and then we are having another two submissions, so we have a full meeting. My feeling is that the meeting is full, but I do not want to cut people out. We have the option of hearing from the forum next week, but we can discuss that in the housekeeping part of this meeting.

Mr Gibson: My understanding is that a presentation would take only five or 10 minutes.

The Convener: You are giving me arguments, but we have a full meeting today. There will be time next week to hear from them.

Johann Lamont (Glasgow Pollok) (Lab): It is likely that I will need to leave before the end of today's submissions as I have constituency business this evening. I would appreciate it if we could take the submission from the Forum of Private Business next week, but I understand that other members may not agree.

Donald Gorrie: I do not know if the representatives are free next week. Would it be possible to circulate their submission beforehand and ask the assessors and others to comment on it by next week? We could then have a short meeting with the Forum of Private Business in the light of any comments.

The Convener: I would be happy with that. I have read the submission from the Forum of Private Business, and I appreciate the fact that its representatives are here today, but a meeting with them is not on the agenda. It is difficult to change an agenda because of the standing orders.

Mr Gibson: I agree. If we are to deal with the Forum of Private Business next week, could we also deal with Mr McConnell's paper?

The Convener: We will discuss that when we deal with our housekeeping. I want to deal with one matter at a time. It has been asked if we can hear from the Forum of Private Business today. I am not saying that we will never hear from it; I am saying that it might be more appropriate to hear from it next week. By that time, the assessors will have the submission, and they may wish to give us some written comments. We would then all have a better chance to consider the submission. I appreciate what you are saying, Fergus, but we have a full agenda today.

Mr Paterson: Meeting next week also might be more suitable for the forum's representatives, because they may not have prepared to give evidence today.

The Convener: Are we agreed that the Forum of Private Business should attend next week?

Fergus Ewing: We should check that Mr Anderson and Mr Dowds are available next week.

Gerry Dowds (Forum of Private Business): We have been asked to give a submission to the Enterprise and Lifelong Learning Committee on 10 November. Does this committee meet at the same time?

The Convener: Yes. You would have to move between the meetings. We will deal with this housekeeping business later.

Johann Lamont: Since I will not be here at the end of the meeting, I will raise a housekeeping matter now. I was asked whether we have invited the Scottish Retail Consortium to attend. Would it be possible to hear from the consortium next week?

The Convener: I think that we are seeing the consortium. We will sort out dates and times later. If there are no more questions for the assessors, I thank them for coming. We have landed you in it again, as you will be receiving a paper from the Forum of Private Business. It would be helpful if you could give us written comments.

Duncan Chisholm: Do you wish us to attend next week?

The Convener: We will get back to you on that, because I like to tackle such issues at the end of the meeting. We will either ask you back or ask for a written submission.

15:25

Meeting suspended.

15:45

On resuming—

The Convener: I welcome Bill Howat, Pete Hancock and Duncan Gray of the Scottish Executive development department, who will give a short presentation before we ask questions.

Bill Howat (Scottish Executive Development Department): Thank you for the opportunity to address the committee today. Our presentation will be fairly short. We circulated copies of our six slides and of the consultation document on transitional relief that we published last week. Does everyone have those copies?

Members *indicated agreement.*

Bill Howat: Good.

The Convener: When did you say that the consultation document was published?

Bill Howat: I think it was dated 28 October.

The Convener: Thank you. I shall take that up elsewhere.

Fergus Ewing: It would have been helpful to receive this earlier with the papers that other organisations managed to circulate, especially as it is a long paper.

The Convener: I said I would take the matter up elsewhere. It is enough that I have said that. If you were a member of the committee, you would know that.

Bill Howat: Thank you, convener. I recognise that there are some issues to be decided about what gets circulated to whom. We are still settling on that.

I plan to spend a minute or so on each slide, starting with a couple that set the context. Slide 1 shows some key facts on non-domestic rates that the committee will want to bear in mind. As members will be aware, the system is similar to that for council tax. Wherever possible, properties are valued by reference to market rental. In Scotland, we raise approximately £1.4 billion revenue from 218,000 properties and the current poundage is 48.9p.

The committee has just had a presentation from, and the chance to talk to, my colleagues from the Scottish Assessors Association. No doubt they explained what they do and that their valuations are subject to appeal.

In the current round, all bar 200 of the 218,000 total properties are subject to conventional valuation. The properties that are subject to formula valuation are mainly the old public utilities, such as pipelines and railways. The Executive will shortly table a series of orders on that for discussion. We have consulted those industries over the past few months and it is likely that formula valuations will be agreed within the next week or so. Beginning later this month and running through into early January, a series of about 13 orders will be introduced; Pete Hancock has had discussions with the Parliamentary Bureau about the handling of that.

Slide 2 concerns revaluation 2000, the statutory five-year revaluation. Members are aware that that is the big issue at the moment and is now under way. That involves a number of processes. Pete Hancock and his colleagues Ian Christie and Stephen Orr form the team that will help to put the statutory mechanisms in place by conducting the consultations on formula industries and putting forward the various statutory instruments that are required to give effect to the revaluation. The valuations are carried out by the assessors and the base, or tone, date is 1 April.

The committee may be interested to know the factors from the last revaluation five years ago. The average increase in uplift in Scotland was 33 per cent against an uplift of 5 per cent south of the Border. For revaluation 2000, Duncan Gray, our senior statistician, is overseeing the sample survey that is nearing completion. The latest estimates are that the average uplift across Scotland will be about 13 per cent, while the figure in England is likely to be nearer 22 per cent.

Slide 3 shows some of the main statements that the Minister for Finance has made at meetings and in the draft consultation paper, which members have received. The minister has made it clear that, as is normal in revaluation, the aim is to maintain the same overall tax yield. Therefore, the burden on Scottish business in aggregate should remain the same. That means that there should not be any implications for the block.

Ministers had previously decided that there should be no localisation of business rates and that harmonisation of the valuation approach should be maintained, which in essence means that similar properties north and south of the border will be subject to the same principles of valuation. The aim is to achieve what the minister has called minimum turbulence. The minister recognises that there is uncertainty, which he wants to minimise wherever possible. Even within a 13 per cent uplift across Scotland, there could be significant variations within localities or sectors, so there may be quite enough difficulties for individual businesses. The Executive's aim is to minimise the turbulence that revaluation will cause.

Slide 4 shows some of the key decisions to be made and the time for that. The poundage rate will need to be set towards the end of this month and no later than early December, as it is an integral part of the local government finance settlement. Consultation is taking place on the transitional relief scheme; the consultation period finishes at the end of December. Ministers will take a view in December or January. In the light of the committee's hearings and other representations, the minister is considering whether to consult on a separate rate relief scheme for small businesses.

Slide 5 shows some of the key points on rate relief for small businesses. There is already some rate relief for small businesses, as is set out in our briefing note. The note also explains that rates were frozen for businesses with a rateable value of less than £10,000 in 1997-98. As the briefing paper points out, that, with transitional relief, makes the system pretty complicated. There is an issue as to whether there should be transitional relief as well as separate relief for small businesses, as that can make life complex, particularly for individual businessmen.

We have estimated that a 50 per cent rate relief scheme for businesses with a rateable value below £5,000 would cost about £45 million. If that is to be offset by other ratepayers, there would be a 1.5 per cent increase. Similarly, we have calculated that a 25 per cent relief scheme for businesses with a rateable value of between £5,001 and £7,500 would cost a further £15 million, which would mean a 2 per cent increase for other ratepayers.

Slide 6 highlights three final points. Any threshold scheme, whether it starts at £5,000, £7,500 or whatever, has the potential to create a major increase in appeals. Anyone who is just over the threshold, whatever it is, has an incentive to argue the value down, which has resource implications for assessors and local authorities and makes management of the system more uncertain.

Another proposal is to link rate relief with the pay-as-you-earn tax system through the level of national insurance contributions. We are considering that proposal, but our initial reaction is that the PAYE tax system is complicated, so would be difficult to adapt to the system quickly. The minister is prepared, however, to consider the possibility of a rate relief scheme. No doubt, in the light of its discussions, the committee will have things to say about that to the minister.

The Convener: Are there any questions?

Donald Gorrie: I have a question for you, convener. Are we asking questions today on the slides, on the paper that was circulated earlier and on the paper that was circulated today, or just on the first two?

The Convener: Probably only on the first two. Members can ask questions on the presentation and have already been able to read the first paper. However, as Fergus has rightly pointed out, the other paper arrived rather late. We will examine that later as a housekeeping matter and perhaps add the second paper to the agenda for the next meeting. I do not expect members to read something quickly and be prepared to ask questions on it.

Fergus Ewing: I thank the gentlemen from the Scottish Executive for their presentation, which I found extremely helpful. The SNP has been campaigning for about a decade and a half for the Labour party to take on board the case for justice for small businesses. Judging by today's announcement that the minister is considering whether to consult on the matter, I am delighted that, at long last, it seems to have accepted that principle. I note that the slide says that he is considering whether to consult—not considering whether to consider it—but I shall leave that issue for another time.

Does the Executive accept the position that even the CBI, in its submissions to this committee, accepts—that the burden on small business in Scotland is substantially greater, in terms of the rates bills that those businesses pay for their premises, than the burden on the larger businesses in Scotland? The CBI estimates that that disparity can be as much as 1000 per cent. Does the Executive accept that that is a serious problem? One can argue whether the figure is three, four, five or 10 times as much. However, we must solve the problem for small business in Scotland. We would be delighted if the solution were to derive imminently from well thought out proposals from the Executive.

Bill Howat: Thank you for your comments. I refer you to bullet point 2 in the briefing paper that we circulated, in which we accept that there is evidence of the extent to which the larger proportion of costs impacts on small businesses. The fact that transitional relief, and relief for small businesses, has been given in the past is evidence of the fact that, in Government, there is a recognition of the problem.

Members will recognise that the decision about where we go next is a matter for the minister. A great deal of evidence from various bodies with an interest is available to the committee. Duncan Gray and his colleagues have been conducting a detailed survey on the impact that revaluation is likely to have on business. The Executive does not want to be drawn on some of the more difficult and controversial issues that members have raised until it has a greater feel for the overall impact that the revaluation will have.

We expect to be able to have a good idea of what that impact is likely to be in a matter of weeks. I look to Duncan Gray, at this point. By the end of this month, we hope to have finalised the sample survey and to be in a far better position to give harder responses to the questions that you raise.

Fergus Ewing: One point that concerns me is the timetable. In your presentation, you stated that the poundage and various other matters, such as transitional relief, must be decided in the next month or so. I raised the issue of revaluation many times in the parliamentary business bulletin back in June. Why did the Executive leave it such a long time before it decided whether to consult? In particular, when did the consultation with business, to which you referred just a minute ago, actually begin?

Bill Howat: I am happy to deal with that, but I want to know to which consultation you refer. We have consulted on many issues. The issue that we are currently consulting on is the possibility of transitional relief. We are engaged in widespread consultation with the prescribed industries; we have previously consulted on the decapitalisation rate. A range of consultation has been conducted on quite technical matters.

What would help the debate would be recognition that the process in which we are engaged is a statutory process, that there are certain time limits to which we must adhere and that a great deal of information must be collected to ensure that the decision is informed. I do not think that the time scale is significantly different from ones for previous revaluation, largely because of the difficulties that we face about setting a tone date, collecting information and trying to arrive at an implementation date that is not too far away from the tone date. The base date from which all this starts is 1 April 1998. It kicks in from 2000, and between those times there is a well-established timetable for rolling it forward.

16:00

Mr McMahon: One of the good things about this committee has been its businesslike attitude. It is regrettable that Fergus Ewing has tried to turn the meeting into a party political broadcast.

Earlier, we had information from the assessors about the impact on resources. The information we have on that is set out in bullet points—there is not much detail. Could you expand on what you consider to be the resource implications for local authorities in the threshold scheme that we have been discussing this afternoon?

Bill Howat: We have not worked that through in any detail at all, for the reasons that I have outlined. Duncan Gray and his team are collating the statistics, which will give us a clearer idea of the actual spread across the country and of what the impact would be. The more thresholds that are introduced under any of the systems, whether for rating relief purposes or for anything else, the more points exist on which people have an incentive to appeal. Anything that increases the rate of appeal will have a short-term effect—it will create uncertainty—and a long-term effect, with ever more difficulties for local authorities and for the Executive in managing the local government finance settlement. We always have to make a calculation at this time of year of how much non-domestic rate income will come into the pool before the money is distributed.

When you ask what the resource implications are, I can only say that there are resource implications. Once we find out what levels we are considering, we may have a better feel for the amounts that could be involved.

The briefing papers that members have seen—including ours—have shown that the lower the threshold, the more properties are caught. There is a big base to the pyramid in terms of rateable values and properties.

Duncan Gray (Scottish Executive Development Department): The objective of the poundage setting and the financial calculations that we are making in the lead-up to the revaluation is for the total amount of non-domestic rate income not to change following the revaluation—the overall implication for local authority finance is that it will not change.

Bill Howat was saying that there are two sets of cost. The slides showed costs associated with a relief scheme at today’s money, with a 50 per cent relief for businesses with properties of £5,000 rateable value or less and 25 per cent for those with values between £5,000 and £7,500. Those costs are a little higher than those provided by the Federation of Small Businesses, because we have included the whole population of subjects below those rateable value thresholds, whereas the FSB suggested excluding certain categories of subject from the scheme. We do not have the data that allow us to model the costs of that. Our costs are also a little higher because we have costed things at today’s money—at 1999-2000 rather than 1997-98 money.

We have not yet completed our costings of a transitional scheme that could protect individual ratepayers against an excessive rise in their rates immediately following revaluation. As Bill Howat said, we are still assembling the final part of the information that is necessary to make those costings.

The objective will be for that scheme to be self-financing: it will result in no loss of rate income to the local government finance settlements or to income to local government. Our initial indications are that, because the scale of the revaluation is much smaller this time than it was five years ago, the net cost of running a scheme of the sort that people are talking about—nobody has decided what precisely the scheme will be—is expected to be relatively modest. We will not know for sure, however, until we complete the data base and have got a scheme to test.

Mr McMahon: There was some detail in the FSB’s presentation about the change in the threshold. The focus of the FSB’s argument may have been too narrow; the implications are far wider than has been indicated. Would that be a fair comment?

Bill Howat: Are you talking about the paper presentation or about the presentation that you heard today? I did not hear today’s presentation, so I am somewhat at a disadvantage.

Mr McMahon: I meant the paper one.

Bill Howat: We would like to look at the impact across the whole system of the proposals in the FSB’s paper. There are implications for the way in which councils manage the local government finance settlement for our assessors and for the courts and the Lands Tribunal for Scotland. All the implications of any proposed scheme would have to be examined.

Colin Campbell: Facing the formidable front row of assessors, I am reminded that I should declare an interest—my brother is a senior partner in a firm of chartered surveyors and I assume that from time to time he haggles with those gentlemen about people’s valuations.

You may not have the information at your fingertips, but I want to ask about the 50 per cent rates relief for empty properties. Do you know the total cost of that rate relief? If you do not have the figures now, you could tell me another time, but it would be interesting to have the information.

Bill Howat: We can supply that information for you.

Colin Campbell: Thank you.

Mr Gibson: You will be aware of the survey that has been undertaken by the Forum of Private Business. It indicated that 87 per cent of small businesses think that rating reform is the most important issue that the Scottish Parliament can consider. Following the revaluation exercise, will the Executive be undertaking long-term investigations into possible alternatives to the rating system?

Bill Howat: That is clearly a question for the minister—if Jack McConnell were to come to this committee, he would say that he would like to get revaluation out of the way with minimum turbulence. He does not want to cause any disruption to business confidence and performance if he can avoid it. Having said that, he has indicated that, in the longer term, he would be willing to consider changes and different ways of doing things.

After April next year, when we have a five-year breathing space, the Executive may be willing to examine the subject again. As an official, I must stress that your question is one for the minister, but logic suggests that changing a well-established system such as this should be done in the first two years of a quinquennium. That would avoid getting caught up in the timetable to which Mr Ewing referred. If one gets caught up in that timetable, it becomes difficult to make changes later on. Because of the nature of the beast, the collection of the statistics and the need to make as informed a guess as possible about the various arithmetic relationships, it is difficult to foresee major changes being implemented before April next year. As I said, logic dictates that we should look at the matter in the first two years of the next quinquennium.

Mr Gibson: Is two years your definition of long term?

Bill Howat: No. That is an unfortunate interpretation. I was suggesting that there would be a window of opportunity.

Donald Gorrie: Have your economic development colleagues in the Scottish Executive formed the view that rates are an important issue in terms of encouraging small businesses? In your view, has the Non-Domestic Rating (Rural Areas and Rateable Value Limits) (Scotland) Order 1997, which gives relief to specific rural establishments, caused problems or has it been helpful?

Bill Howat: That is an interesting question. I need hardly explain that the order was introduced because ministers took the view that there were particular problems in rural areas that needed to be addressed. As an official, I can say that the scheme seems to have worked very well and has been favourably received in most rural areas

Pete Hancock (Scottish Executive Development Department): That is true.

Bill Howat: As I said in reply to Mr Gibson, if we were considering a major revaluation of non-domestic rates in Scotland after April 2000, we would learn lessons from that scheme.

Donald Gorrie: Turbulence is a new in-word—it is a bad thing, I gather. It is always helpful in politics to know whether one is for or against a thing—we are to be against turbulence.

I do not know whether a relatively simple scheme to help small businesses to pay less in rates would cause turbulence. If they all paid less in rates, there would be less hoo-ha about winners and losers in the revaluation. Would such a scheme increase turbulence?

Bill Howat: Yes.

Donald Gorrie: Explain why.

Bill Howat: I am sorry. I felt that I should give a non-civil service answer for a change.

It is a fair question. If we had a blank sheet of paper from 1 April next year, your point would have some validity and would be worth considering, but we will not have a blank sheet. At the end of this quinquennium, some businesses will still be in transition and will receive some relief through the existing small business relief scheme. All that needs to be considered in forming a view of where we go next.

I apologise if I have given you a new buzz word—I did not intend to. You will have understood that turbulence is meant to capture the idea of minimising the uncertainty for people who want as much certainty as Government can give. The Executive is sympathetic to that wish.

The key thing to be borne in mind is that we will not come out of this valuation with every property in Scotland paying the rates that it should, as determined by the previous revaluation. Therefore, as I suggested, it would be not be easy at this point in the cycle to start new systems that radically changed things.

One problem with past valuations is that some people successfully appealed against them, but then found that their rates bill had not gone down—by being successful in the appeal they changed their position in terms of transition or rate relief. There can be complex issues at the individual level.

Donald Gorrie: If people are still under transitional relief when the new lot of rates comes in, the existing system for avoiding turbulence is not good. We should think out a better system to help to reduce turbulence.

Bill Howat: That is a valid point. It is interesting that, on this occasion, the uplift is only about 13 per cent, which is significantly below what it was five years ago, so it seems that unwinding—that is the technical term—transitional relief in the next quinquennium will be much more feasible.

Bristow Muldoon: I apologise for missing your presentation—I was dealing with some urgent constituency business. I also apologise if you have covered this point. The Federation of Small Businesses submission suggests two ways in which its proposals could be funded. One is that the Scottish Executive could find funds elsewhere in its programme. I do not want you to respond to that, as I know that the Scottish Executive does not favour that option. What is the Scottish Executive's view on the other option, which is to raise rates for larger businesses by, for example, 3.5 per cent on average?

16:15

Bill Howat: I start by saying that I do not mind Mr Muldoon missing a presentation for constituency business because I am one of his constituents. It is good to know that he is earning his corn.

The main point, in terms of the papers and the representations that you have had today, is that ministers have not yet considered those matters. The representations are going the rounds. This committee is rightly examining them and will form a view on the issues—Jack McConnell will be interested to hear from it.

On whether money will come from the block, the consultation paper that we have just issued—members of the committee will not have had a chance to look at it today—raises the possibility of some money from the block going towards a transitional relief scheme. As Jack McConnell has not yet addressed the issue of what will happen about rate relief for small businesses, I cannot comment on his view on that.

Members will recognise the familiar problem: if someone produces a proposal that costs—I think from memory—£45.6 million and suggests that that sum should come from the block, the money will have to come from somewhere else in the block because, at the moment at least, the block is determined under the comprehensive spending review for the next two financial years.

The Convener: I do not know why, but when someone from the Executive comes to give evidence, I always think that they get off easily. I thank you for your comments, which have been helpful. Like Fergus, I am delighted that the minister is at least considering consultation on the rate-relief scheme. Our deliberations will be part of that consultation. It will be interesting to hear what comes out of the consultation.

16:16

Meeting suspended.

16:21

On resuming—

The Convener: I thank the witnesses for coming in early and enabling us to make up some time. I know that you have come straight from another meeting, so I apologise if you rushed up the stairs and were hounded by Craig Harper to come straight into this committee.

Allan Hogarth and Iain McMillan are from the Confederation of British Industry Scotland. The procedure will be same as before—they will give a short presentation and I will ask committee members to ask them questions.

Iain McMillan (Confederation of British Industry Scotland): Thank you. I am the director of CBI Scotland, which means that I am the professional head of the organisation. Allan Hogarth is head of media and public affairs for CBI Scotland. We are pleased to have been asked to give evidence to the committee.

We provided a short briefing paper to the committee clerk at the end of last week. In view of that, I will go through this fairly quickly. I am also mindful that you have had three presentations this afternoon. If I am brief, it will give members more time to ask questions, which we will be pleased to answer.

We understand from the briefing that the committee clerk sent to us that the objective of this inquiry is to provide an early opportunity to consider changes to the system prior to revaluation and that the key issue that the committee is addressing is the balance of the burden of non-domestic rates between small and larger businesses.

The contents of the first few sections of our paper will be well known to members. It states that businesses pay rents in England, Wales and Scotland and explains how the rating burden of a firm is determined. A rating revaluation is required every five years. After that exercise is carried out, the uniform business rate is adjusted so that the yield to the Scottish Executive remains the same but the distribution of the income that arises is somewhat different. There will be a revaluation that will take effect on 1 April, based on rateable values or on the values of properties on 1 April 1998. That will remain in place until 2005, when the next rating revaluation will take place.

When we prepared the paper, we had not seen the consultation from the Scottish Executive. We had seen the English equivalent, which was published by the Department of the Environment, Transport and the Regions. I have had the opportunity, over the past weekend, to look at the Scottish Executive's paper, which came out late last week. We did not take account of that in our paper. However, having compared the two, I can say that they are very similar. Scottish elements are taken into account; the two papers are virtually identical.

I shall move on to the issue of small firms, as the committee might want to cut to the chase on that. It has been argued that the evidence suggests that business rates, as a proportion of turnover and profit, are greater for small businesses than for large businesses. Research has been carried out on that. The Department of the Environment, Transport and the Regions commissioned research in 1995, which found that companies that had a turnover of less than £100,000 a year paid more than 30 per cent of their operating profits in rates. That was twice as much as that which was paid by larger companies.

A similar exercise has been carried out in Scotland. There is evidence to support the view that small businesses that have a lower rateable value have a higher rate burden, proportionally. We would not dispute that. What is much more difficult to establish—and I do not believe that it has been established—is why that might arise. Until there is a greater understanding of that, it would be premature to try to prescribe any changes.

It has been argued that the rate burden on smaller firms could be relieved by the provision of a substantial cut in rates on properties with a rateable value of £5,000. The Department of the Environment, Transport and the Regions highlighted that possibility in a white paper in 1998. Study is still under way, as the reasons for the problem that I mentioned a moment ago are not clear.

I shall cover two points. The first concerns the transitional relief for smaller firms that is proposed in the Executive's consultation paper. I shall then go on to talk about the possibility of a longer-term change in the relief for smaller firms. I cannot give the definitive CBI position on the Executive's consultation paper, as we need to consult our members to establish that position. The paper did not appear until the end of last week, and respondents have been given until the end of this month to work out their responses.

In principle, CBI Scotland is opposed to a rate relief scheme for smaller firms, particularly a self-financing scheme. We believe that that concept is flawed. We believe that growth hurdles—not allowances, but bandings—for expanding businesses would come into play. A small firm that moved from a rateable value of under £5,000 to a rateable value of over £5,000 would be hit immediately by a 50 per cent increase in its rates. If there were another band of, say, £7,500 or £8,000 and a small business moved from the middle band to the higher band, its rates would increase by 25 per cent. If a fast-moving company moved from below £5,000 to over £7,500 or £8,000—the band that has been suggested—it could be hit by an increase in rates of well over 100 per cent. We are concerned about that.

16:30

Whether a firm is small or large, the tax is levied on the property, not on the firm per se. If a large firm occupies a large number of small properties—for example, a bank that uses small properties for automated teller machines, or a business that operates from kiosks—it will get the benefits intended for small firms.

Last but not least, we would be concerned if a cut in rates for small properties made those properties more attractive, as market forces would drive up the rents, which could cancel out the benefit of the reduction in rates. We base that on a similar scenario that arose in some of the enterprise zones, where favourable treatment on rates caused rents to rise and the benefits to be lost. It is also possible that landlords would take the benefit of lower rates intended for small firms by increasing rents.

Our view is that smaller firms can be helped in other ways. As I said in our paper, the Local Government etc. (Scotland) Act 1994 allows local authorities to relieve hardship. There are orders that limit rateable values, such as the Non-Domestic Rating (Rural Areas and Rateable Value Limits) (Scotland) Order 1997, which is cited in the paper. Therefore, there are ways in which relief can be targeted.

We give yearly submissions to the Treasury on help for small businesses on a UK level in which we make suggestions, some of which are taken up, such as making permanent capital allowances, or changing the capital gains tax regime in favour of small businesses. I do not know whether evidence has been provided to the committee on other suggested solutions to the small firms syndrome.

I am happy to take questions, but before I do so, I want to explain that we are trying to help small businesses. We represent their interests and those of many trade associations in Scotland, whose members include a range of groups, from male and female plumbers to larger companies. Our position has been established in consultation with the people we represent. Our primary purpose is to help small businesses, not to put in place a change to the rating system that would not work terribly well.

The Convener: Thank you.

Do committee members have any questions?

Colin Campbell: Can you confirm that you had sight of the Scottish Executive's paper at the weekend?

Iain McMillan *indicated agreement.*

Colin Campbell: You talked about the inherent flaws and hurdles in the banding system. Do you think that a tapering or sliding scale might overcome those difficulties?

My conclusion from reading your document is that you want to keep the status quo. As a former head teacher, I must say that the tone of the penultimate paragraph of your paper, which implies that what small firms need to do is sort themselves out, does not compare well with the letter from the Federation of Small Businesses, which called for the cost of the scheme to be met from the block grant, rather than from an increase in rates for bigger businesses. The federation said:

"This will ensure that small businesses receive much needed rates relief and that the rates burden is not increased for medium and large businesses".

That is my feeling about the way in which you have presented your case.

Iain McMillan: Let me answer your last question first. Whether or not any cut in small firms' rates is financed from the Scottish block is not relevant to the arguments that I made. My argument was that the scheme, rather than the financing of the scheme, was flawed. I am not here to say that I object to the scheme because larger and medium-sized firms would have to pay for it. What I have done is draw attention to the inherent flaws in the scheme. I hope that that clarifies things

I hoped that I had expanded a little on the penultimate paragraph of our paper in my statements about the representations that we were making to the chancellor about other ways of helping small firms. I proposed an examination of whether the rent levels are commercially realistic, for example, because although we know that rates form a larger proportion of the turnover and profits of small firms, we do not know why. Such an examination would help us to understand that, because rateable values are based on the commercial rental values of property, which is another way of assessing its true economic value.

If we want to address the issue, we will have to dig deep. The point that I wanted to make is that there should be a balance between undertaking a detailed investigation of what the real problem might be and giving help to small businesses through other means. We should avoid flawed solutions at this stage.

Colin Campbell: You made a point about the hurdles that were an inherent flaw in the banding system, and I suggested that a sliding scale of rates might be an acceptable solution. How does that grab you?

Iain McMillan: How do you see that working in practice?

Colin Campbell: We have a sliding scale for things such as national insurance payments, which are worked out with tables. I assume that it would be possible to have an equivalent system for rates. That would overcome the band flaws.

Iain McMillan: So a sliding scale would operate rather like the tax system? Every business would get the benefit of the lower band and then move up through the banding system.

Colin Campbell: Or something akin to that.

Iain McMillan: That would work much better. National insurance and the income tax system work like that. National insurance used not to work like that, and, because it operated on a banding system, it created the poverty trap. Our concern is that the proposal would create a corporate poverty trap.

A sliding scale is a possibility, but it would cost the Exchequer an awful lot of money. For that reason, I do not know whether it would be a runner.

Allan Hogarth (Confederation of British Industry Scotland): It would certainly cost a lot more than £46.5 million, as that figure applies only to small businesses. The scheme that you are proposing would benefit all businesses, so it would be quite expensive.

Mr Gibson: The first sentence of the third paragraph of the section entitled, "CBI Scotland's Preliminary Position", reads:

"In principle, CBI Scotland opposes a rate relief scheme for smaller firms, particularly a self-financing scheme, which, in addition to other flaws, would raise growth hurdles for expanding businesses."

You appear to assume that the only system that we could possibly implement is the one proposed by the Federation of Small Businesses.

Does the CBI accept the principle that there should be rates relief for small businesses so that they can grow? If a company has to pay 30 per cent of its operating profits in rates, surely that is a hindrance to growth. What subjective research has the CBI—or other bodies with which it has worked—done to examine optimum rates levels?

Iain McMillan: Our decisions to undertake research are driven by the weight of members' opinions. There is a view that the rates system, like other elements of the tax system, is not perfect. The CBI does not think that the existing system is so imperfect as to justify undertaking the research that Mr Gibson suggests. It is not for organisations such as the CBI to undertake such research, but for those who want to challenge the existing system. Although we do not think that the system is perfect, it is reasonably satisfactory.

Mr Gibson: If an organisation represents larger firms, I imagine that it would prefer the existing system.

Allan Hogarth: We represent 26,500 firms, many of which are trade associations that represent, for example, small firms of plumbers or electricians. It is wrong to suggest that we represent only large firms.

Mr Gibson: Have you any empirical evidence that suggests that there is an optimum level of rates that could be imposed that would benefit large and small businesses?

Allan Hogarth: We have not carried out that research for the reasons that Iain McMillan outlined. The members of CBI Scotland have not called for that to be done. A lot more could be done to improve growth in small firms, such as providing capital allowances and giving tax credits for research and development. Small firms can develop and become medium-sized firms. That is an avenue that should be looked at more closely.

Mr Gibson: If that is the case, why did a recent survey by the Forum of Private Business indicate that rates reform was the No 1 issue for 87 per cent of its members? The CBI seems to think that rates are not an issue and that they are not a burden.

Allan Hogarth: You would have to address that question to the Forum of Private Business. Our members have not raised the issue with us.

Johann Lamont: What proportion of its membership does CBI Scotland define as small businesses? I am very interested in what you say about rates relief. Would that be an active disincentive to expansion, and to what extent does the CBI think people make those kinds of straightforward calculations and decisions when they think about moving things on?

It might be a good idea to introduce rates relief, but would the folk who were targeted benefit from it? Perhaps the witnesses could expand a bit on that. Rates relief would show that we were trying to act positively, and I think that people would benefit from it.

Alternatives were also mentioned and relief of genuine hardship was suggested, but in what other ways could help be targeted? That is not just about dealing with problems as they arise—it is about supporting small businesses that want to plan ahead.

Iain McMillan: There are a number of questions there.

Johann Lamont: I am aware of that.

Iain McMillan: I will try to deal with each of them.

You asked what proportion of our membership is small firms, but I am not able to tell you that, because a good chunk of our membership comprises trade associations. Their members are affiliate members of the CBI, and we have never counted how many are large or small firms.

For example, the Scotch Whisky Association mainly represents large firms, whereas the Electrical Contractors Association of Scotland represents a range of firms. Although I cannot answer that question, I can say that, under the rules, 25 per cent of the council of CBI Scotland, which is mainly elected by the members, is made up of representatives of small firms.

16:45

The other question was about targeting help to small firms. I said earlier that help can be given in other areas of the taxation system outwith the rates. We have recently handed in a budget submission that calls for permanent capital allowances, changes to the capital gains tax structure and other forms of tax relief. Perhaps that would be a better route, as any action that distorted a market-based system of property tax might rebound on us. Market forces could reverse any changes that were made.

I must apologise—I cannot remember the other question.

Johann Lamont: I wondered whether help might also be targeted at people who made plans on the basis that they would receive rates relief.

Allan Hogarth: The Government is just about to appoint a chief executive of the Small Business Service, which will obviously provide other support for small businesses. The Prime Minister gave more details of that initiative in his speech to the CBI conference today.

Iain McMillan: We will have to examine the whole system of taxation if we want to find a way of relieving small firms of this highish charge. Although one way to do that might be through a sliding scale of allowances and rates, that measure would be expensive to implement. It was suggested recently that firms could pay tax on their profits, or there could be a scheme related to employers' national insurance contributions.

I am not sure of the exact detail of those proposals. Would the proposals on employers' national insurance operate only for small businesses, or would they apply to businesses across the board? If the proposals operated only for small businesses, at some point growth businesses would have to move from one system of taxation to another, which would mean that barriers could be built up. Furthermore, any scheme tied to employers' national insurance contributions with a correlation with rates or local taxes could act as a brake on employment.

If such a system were to operate across the board, how could a large firm with multiple sites split its national insurance contributions or its taxable profits between one or another site without involving a great deal of bureaucracy or creating many difficulties?

The stability and security of the yield is tied to any system of taxation that is based on profits or employment effects. In times of recession, when unemployment rose and profitability dropped, whoever received the tax—whether the Executive or local government—would find the yield dropping. That would have major implications for local expenditure. For all the flaws of the rates, the security of the yield is not a problem, as it is a charge.

Donald Gorrie: The same sort of arguments were advanced in favour of the window tax some time ago. None of us wants to do anything that would harm small businesses. I am interested in your argument that there would be a poverty trap. How would a graduated scheme in which—for the sake of argument—a rateable value below £5,000 receives 50 per cent relief, below £5,500 receives 45 per cent relief and below £6,000 receives 40 per cent and so on, discourage firms from growing? The increased rates would be relatively small. Surely it is better to encourage businesses to grow and then they will be able to pay the increased rates.

Iain McMillan: I think that I tackled that in Mr Campbell's question, but let me cover both points. If there was a taper, and the scheme operated by way of allowances, such problems would not occur. I have seen a proposal whereby firms with a rateable value of less than £5,000 pay 50 per cent of their established rates. If a firm wanted to move to premises that had a rateable value of £6,000, it would not qualify for that 50 per cent reduction.

Donald Gorrie: What I am suggesting is that the business would qualify for 40 per cent and that the difference would not be a big inhibition.

Iain McMillan: Forty per cent of what? Is that a 40 per cent reduction in the rates?

Donald Gorrie: Yes.

Iain McMillan: If it was a 40 per cent reduction in the rates, a business would pay 60 per cent of the rates that it would normally pay. That would mean that if it moved to larger premises than those with a £5,000 rateable value, it would immediately have to pay the difference between a 40 per cent reduction and no reduction at all. That would be a large increase.

Donald Gorrie: Yes, if the business moved into premises the size of Marks and Spencer. Presumably, in a tapered scheme in which any increase in the rates was gradual, the firm would grow gradually. I cannot understand the poverty trap argument.

Iain McMillan: It depends on how many bands the scheme has and the slope at which they are graduated. It might work, but we would need to see what was proposed in order to assess that.

Allan Hogarth: Would all firms be eligible for your suggested scheme?

Donald Gorrie: We are trying to explore a sensible system. In your view there are flaws in the schemes that are being suggested. I am unimpressed by that, but I would like to be fair, and understand why you think that they are flaws.

Allan Hogarth: In your proposal, would all businesses be eligible for allowances or just small businesses that reach a certain level?

Donald Gorrie: My example relates to small businesses; at a certain point—for example £10,000—the relief would run out. Under Mr McMillan's argument, a small business with a rateable value of £4,500 that is doing so well that it moves to other premises with a rateable value of more than £10,000, would not get any relief. I would have thought that a business that was doing so well that it could afford to pay the increase, would not say, "Gosh, if I am going to have to pay more rates, I am not going to expand my business." Persuade me that it would say that.

Allan Hogarth: In the enterprise zones for similar schemes, experience has shown that landlords increased the rent to fill the gap. Market forces have made such areas more attractive places to be based, which has led to rent increases. It is not quite as easy as saying, "Let us reduce the rates and that will reduce the burden for small firms."

Donald Gorrie: You have raised the important issue of increased rents. We asked the assessors about that. They took a slightly different view, although they conceded that your example of enterprise zones was correct.

You seem to have great faith in the market system of rents and rates and you seem to suggest that any distortion of that system would be wicked. How can you persuade me that the market system works? When I was a councillor, it never worked in my ward.

Iain McMillan: We believe that there is a serious risk that that could happen, and we cite the evidence of the enterprise zones. We do not yet have that system of rates in this country, so there is no proof. At some point the committee will have to make a judgment about that, but we have given our view based on logic and precedent.

Fergus Ewing: The logic that I have heard seems to be that you accept that small businesses have a higher burden of business rates than larger businesses do, but that you do not think that anything should be done about it. It seems unusual that the CBI should send a message to small businesses saying, "High tax is good for you."

You have put forward some specific reasons for your rather dubious proposition. You state that market forces will apply. Your paper also states:

"We also believe there is a serious risk that landlords would take much of the benefit intended for small firms."

If this scheme or a similar one were introduced, and a small business that now pays around £3,000 were paying around £2,500, do you envisage that the landlord would snap up that £500? Which one of your members will snap up that £500?

Allan Hogarth: To be fair, not many of our members are landlords. Experience has shown us that rents increase as sites become more attractive for businesses. That is not a hypothesis; it is reality.

Fergus Ewing: Let us consider Scotland. From my experience working in property, I know that a lot of the properties in which small businesses are based are owned. Your argument does not apply to them because the small business is the owner of the property. A larger proportion of small business occupies properties on long leases. Your argument does not apply to them either.

Iain McMillan: It might affect them if they are selling.

Fergus Ewing: Your argument could apply only to the relatively small proportion of properties for which the existing tenure expires and there are negotiations about a new lease, or to leases of new hereditaments. You assume that market forces will somehow rub out any small gain that small businesses might make. What evidence do you have for that extraordinary proposition?

Allan Hogarth: It has happened with rate relief schemes that have been tried in enterprise zones. It is easy to produce a scheme without evidence to back it up, but there is evidence that that has happened in enterprise zones across the UK.

Fergus Ewing: You have repeatedly referred to evidence. If you have any evidence, perhaps the committee could receive it from you.

My second objection is to your claim that a small business that is doing well and decides to move to another office or shop will be put off by higher costs. Any sensible business people, regardless of the size of their firm, work out the costs of moving before they decide to move. Your argument is therefore completely irrelevant to the issue that we are considering today. No business person in his or her right mind would decide to move to a property that he or she could not afford.

Iain McMillan: That was not the point that I was making. Your argument is that the changes would apply only to rents and that they would not apply where the heritable property is owned. My point is that when a small businessman wants to sell a property, the value of the heritage could be higher for exactly the same reason as the value of the rental could be higher. I do not accept your counter-argument.

Your point is that we accept that the rates burden on smaller firms is greater, but are not prepared to offer any suggestions of how that could be improved. I made clear in my opening remarks that we accepted that, but that we did not know why that was happening. I doubt that you know either.

17:00

Fergus Ewing: Well, I do know some reasons. However, you are talking about the suggestions that you have made. One of them is that local government should bail out small business, under section 156 of the Local Government etc. (Scotland) Act 1994. In the CBI's opinion, which budget lines should be scrapped to help reduce the unfair burden on small business?

Iain McMillan: We did not say that. We are not proposing a new act of the Scottish Parliament. This legislation is already on the statute book. Parliament saw fit to bring in that legislation to alleviate hardship, where it arose. We are citing that as only one example of the way in which help could be targeted at small businesses that are in distress.

Allan Hogarth: As the suggested scheme would require £46.5 million from the Scottish Parliament's block grant, it is only fair that MSPs should decide from where in that block grant the money should be taken.

Fergus Ewing: That is undoubtedly true. We have accepted that small businesses have relatively higher business rates. You accept that and have said that that is not of concern to your members. Has there been any consultation with your members on the proposition that there should be a scheme to help small businesses with their rates? If not, are you proposing to implement such a scheme?

Iain McMillan: Indeed we are. The consultation paper appeared only at the end of last week, so it is a little soon to have consulted our members on our response to that consultation. There are two separate issues: the special help that is to be given to small firms within the parameters of the revaluation, and a longer-term change to the smaller firms rating regime that might help them over time.

Mr Paterson: I want to share my experience with the committee. When the money is needed, the bank does not give it. I remember when I set up my own business. The cost of rates that was inflicted on my business—and I use the word inflicted meaningfully—put me under pressure. Things have moved on considerably. I own a business that has more than 50 employees, and—although I should say this quietly—the rates are no longer a consideration, due to the size of the business. Have you surveyed your members to determine how many are paying 25 or 30 per cent of their perceived profit on rates?

What would your greater membership think about having a burden of 25 per cent of their profits imposed on them? How many of them would last the pace? Much depends on the size of the business; some might have to pay 5 per cent of their profit, whereas others might have to pay 25 per cent. That difference is a problem for business in Scotland that must be addressed. From your paper, the CBI's message seems to be, "I'm all right, Jack." The greater number of businesses in Scotland are small businesses and they need help. How do you square the circle?

Iain McMillan: There was certainly no intention to adopt the tone of, "I'm all right, Jack." The paper does not say that, and that was not our intention. Although that is how you interpreted it, that is not the way in which we wanted you to interpret it. I explained, earlier, that small firms make up a large part of our membership and that we care very much about their fortunes. Their fortunes must be improved on the basis of sound analysis, not conjecture. Although we accept the analysis of the high proportion of turnover and profit that is taken in the form of rates, we do not know why that happens.

A survey of our members would not help. It might establish how many of them might suffer from the problem, but it would not necessarily give us an insight into why. That leads to the point about larger firms, the proportion of their profits that goes on rates and how they would feel if the proportion were as high as it is for small business. That returns us to why smaller firms suffer a larger rating burden than larger firms. We do not know why that is.

Mr Paterson: Perhaps it is a question of turnover. If a businessman is on his ownsome, the take is that much smaller so the burden is that much greater. The fundamental question that I want to put to you is do you care about small businesses? Is there a problem in Scotland that must be addressed? Quite simply, if, after our deliberations, the burden on a business is reduced, say from 25 to 12.5 per cent, will that have any material effect?

Iain McMillan: With respect, convener, I thought I had answered that question. We do care about small firms. I have said so several times during this discussion. A large proportion of our members are small firms. However, we must act on the basis of the concerns that are relayed to us. I repeat; we have made proposals to the chancellor about the changes that he could make to the fiscal environment to help small firms. I do not accept for one minute that we do not have a kindly attitude to small firms or that we are not in the business of helping them.

How we help goes back to why rates take up such a high proportion of a small firm's turnover. The example of the one-man business has been mentioned. Are you suggesting, Mr Paterson, that it is possible that a one-man or a small business simply may not be able to generate the turnover per square metre of property that a large firm can? If so, that goes back to the fundamental issue of a property tax, which may be the issue that needs to be addressed.

Allan Hogarth: On your point about CBI Scotland's role in assisting large and small businesses, the Minister for Enterprise and Lifelong Learning set up a manufacturing strategy group four or five weeks ago, a sub-group of which will examine all the factors that affect the business environment for large and small businesses across Scotland. The sub-group includes us, the Federation of Small Businesses and other representatives of the Scottish business community. By December, it will publish its report on ideas for improving the business environment across Scotland. The report should provide some constructive solutions.

Mr Paterson: What about my final question on whether a reduction from 25 per cent to 12.5 per cent will have any material effect on a business?

Allan Hogarth: It is easy to produce a simplistic figure like that.

Mr Paterson: Let us say 20 per cent then, to make it easier for you.

Allan Hogarth: Any reduction in cost to business would be good news and would improve business performance, but other questions must be addressed, such as how sustainable such improvement would be, what other effects they would have, such as rent rises, and who would pick up the tab—other businesses or Scottish taxpayers.

Mr McMahon: You mentioned the need to make a judgment. I have made a judgment based on some of the things that you have said, which may be unfair. I want therefore to give you an opportunity to correct me. My point picks up on Donald Gorrie's comments and on what Gil Paterson has just said. You talk about poverty. Indeed, the only thing you have not said about poverty is, "Let them eat cake." For us to make a judgment on your presentation, you need to convince us far more of why the status quo should remain.

You say that you recognise the difficulties that face smaller businesses, but you are not prepared to listen to them until their screams are louder. Why will the CBI not make a judgment based on the information in front of it?

Iain McMillan: We have described the characteristics of the scheme, but that is a different matter. We have not offered an analysis of those characteristics. As for "Let them eat cake", what you are examining is one element—small businesses' costs—of the business community's costs as a whole. We represent the business community across sectors and sizes. Employment is generated not just in small businesses, but in medium and large businesses. What needs to be done must be based on sound analysis, not on conjecture or sentiment.

Mr McMahon: But you are not prepared to make that analysis. You want to wait until your members tell you that it is needed. That is what we have tried to get across.

Iain McMillan: But I am here to represent my members. Who else do you think I represent?

Mr McMahon: You also told us that you are aware that problems exist but you are not prepared to analyse them. You are not representing your members if they have to wait until their screams are loud enough before you make a judgment. However, you want us to make a judgment on your presentation that the status quo is acceptable.

Iain McMillan: Well, make that judgment then.

Allan Hogarth: The point we want to get across is that defining the cost to business is not as simple as saying that any scheme that reduces the rates burden on small business will lead to dramatic growth in small firms. The Executive has set itself a target of helping to create around 100,000 small businesses over a 10-year period, or 10,000 a year. Rather than just saying that the scheme would lead to a massive growth in small firms, perhaps the Local Government Committee should speak to the Enterprise and Lifelong Learning Committee about whether the scheme would actually help to reach that target.

Mr Gibson: The scheme might not bring about dramatic growth, but for some small firms it might mean the difference between surviving or not. I am concerned about your one-dimensional approach to market forces. You argued strongly that a reduction in rates could cause rents to increase, but I did not hear you say that the reverse would be true—that if we put up the rates that could lead to a rent reduction. Will you address that point?

You referred to the proposals made by the Federation of Small Businesses in some detail. The FSB proposed that if the Scottish Executive does not provide funds of £46.4 million, the scheme could be self-financing if the burden on larger companies were increased by 3.5 per cent. What would be the effect on larger firms—in terms of growth, investment and employment—if that increase were implemented?

Iain McMillan: The overall effect is almost impossible to predict. It would depend on whether the cost to medium and large businesses affected their break-even point or their return on investment hurdles. We cannot advise you on that; if we could, we would. I emphasise that if we thought that some of the proposals would work in favour of small businesses, we would support them. However, for the reasons that we have given, we think that the proposals are flawed. That is why we are making our points to the committee.

Mr Gibson: Gil Paterson mentioned the fact that if a company employs more than 50 people, it is a medium company. Once a company reaches a certain size, rates are not the same issue as they are for small firms.

Iain McMillan: Yes.

Mr Gibson: That is why I wondered what effect it would have on margins in large firms. Will you respond to my point about rates? You talked specifically about enterprise zones and how, if rates were reduced, market forces would push up rents. Is the reverse also true?

Allan Hogarth: You would have to select a certain area where that would happen. Are you talking about certain enterprise zones where if the rates were increased, the rents would fall?

Mr Gibson: No. I am asking, if there were a 3.5 per cent increase in rates for all those businesses with a rateable value higher than £7,500 to compensate for reductions below that value, what the impact would be on rent levels.

Allan Hogarth: Negligible, I imagine.

Mr Gibson: Okay. Yet you are arguing that it would have a very large effect.

Iain McMillan: It would for smaller firms, because the percentage gap in the tax break would be much larger for them than it would if it were spread across the rest of the business community. That is the point we made about small firms. If the value of the rates falls, the demand for smaller properties could increase, which would increase their rental values and hence the rateable values or, in some cases, the value of the heritable property.

17:15

Mr Gibson: Surely, if rateable values had such a detrimental effect on large companies, we would be in the same situation? There would obviously be less demand for larger rental properties, in shopping centres, for example.

Iain McMillan: Yes, but the rates of the larger properties would not be getting pushed up by anything like the percentage of the reduction for smaller properties. Therefore the effect on medium premises would still be much less, because it would be spread over a much wider estate.

Mr Gibson: Surely that is an argument for rates relief for smaller businesses? You have just said that the burden on larger businesses would be smaller.

Iain McMillan: No, it is not. That would not overcome the problem of rentals or heritage values of smaller premises rising. How it is funded is a separate question. The effects of the tax break have to be considered separately. They are mutually exclusive.

Mr Gibson: You have specifically talked about enterprise zones, where rents are reduced to suck in businesses. What would be the effect on rent levels across the rest of Scotland?

Allan Hogarth: We used enterprise zones as a practical example.

Mr Gibson: Has there been no research on Edinburgh, for example, or on those areas of Scotland that are not within enterprise zones?

Allan Hogarth: No. You were asking us about what would happen if we reduce the rates for small firms, and so we gave an example where that had happened to explain the consequences for rents and the costs of businesses in those areas. It seemed fair to highlight a practical example where that had happened.

The Convener: Colin Campbell has a very quick question before I sum up.

Colin Campbell: There is some need for mutual clarification. When you were talking about the band floor and huge increases in rates, I suggested a tapering or sliding scale, such as national insurance has. Later on, I had the feeling that you were specifically addressing national insurance, which was not what I intended. I was suggesting a sliding scale so that there would be a smooth transition as rateable values increased.

The Convener: I thank the committee members for their questions. I am not going to ask a question, but I would like to make some comments. I am not absolutely sure who you represent, because I came to the meeting with the preconception that it was big business, but you have said that that is not the case. You say that you represent a whole range of businesses, but you have not done an analysis on the issues that Fergus Ewing mentioned. It might have helped if you had come to the meeting with that kind of knowledge. That is something that you should consider. I just want to leave that point with you.

We leave as friends. If we need to hear from you again, we will invite you back. Thank you very much for coming. I know that you ran from another meeting to get here.

Iain McMillan: Thank you, convener. We would be very happy to return and meet with the committee again, if necessary.

The Convener: The committee has some housekeeping matters to attend to. We are running over time and are keeping the clerks behind—I do not know if they get overtime—so I would like to tidy this up quickly.

The clerking arrangements for the visits are as follows: Craig and Eugene will both go to Glasgow; Craig will go to Clackmannanshire; Eugene to East Renfrewshire; Craig to Aberdeen; and Eugene to Perth and Kinross. We think that that is the best way to do it.

Members *indicated agreement.*

The Convener: Do members who are going to be rapporteurs want some kind of format to follow? For the first visit, it would probably be better for you to receive an information pack.

Members *indicated agreement.*

The Convener: We will obviously expect to get some evidence from the people and groups that we speak to during our visits that backs up your reports.

The agenda for our next meeting has changed slightly. Professor John Curtice is coming, and we had hoped that, at the end of the meeting, we would discuss what happened today. However, we have had a surge of requests for the Forum of Private Business and the Scottish Retail Consortium to come and speak to us. We could do that next week, and use any time left at the end for a discussion; but given what has happened today, we should allow more time for the discussion. Should we fit that in at a later date, or should we try to do everything next week? John Curtice is coming, and there would be two presentations. Would we be able to fit in, after the presentations, discussions of what happened today, of the two presentations and of how to proceed?

Colin Campbell: I do not think that we can do all of that in one morning.

The Convener: All right. Next week, we will have John Curtice, the Forum of Private Business and the Scottish Retail Consortium. Eugene and I will put our heads together to discuss how we can find time for discussions. There are options for what to do about the information that we have received today.

Dr Sylvia Jackson: The person who is coming from the Forum of Private Business has to go to two meetings. Eugene may have to liaise with the Enterprise and Lifelong Learning Committee.

The Convener: Fergus may want to come back on this as well, so we can liaise.

Dr Jackson: Convener, it looks as though I will not be able to go to East Lothian Council on 15 November.

The Convener: Craig, can you deal with this?

Craig Harper (Assistant Clerk): I will send round an e-mail.

The Convener: That means that I will not get it, which is great.

For our future work programme, we had agreed that if we were out on visits on Mondays or Fridays, we would cancel our normal weekly meeting. I am happy for us to cancel the meeting of 16 November, because a group of us will be out on a visit on Friday, a group will be out on Monday, and groups will be out on the following Friday and Monday. I want to give the clerks time to get their bits and pieces together. I also have to address a meeting that day, so I think that it would help everybody if we could cancel that meeting. Is that agreed?

Members *indicated agreement.*

Mr Gibson: Yes, I agree, but will we still have enough time to scrutinise effectively the ethical standards in public life bill? Do we know when we are likely to be able to have a look at that?

The Convener: I will come on to that.

The agenda for 24 November was to get reports back from meetings; it may also include some discussion about what has happened today and what will have happened next week. There is space on that agenda, and there is space on the agenda for the meeting on 8 December. We are aware that the bill is coming up, so the meetings on 24 November and 8 December have got soft agendas, so to speak. We are not going to pack those agendas, because we may need the time to consider the bill.

Do members want a briefing on the legislative procedure for going through a bill? Obviously, I exclude Donald Gorrie from that, because he is an expert.

Donald Gorrie: Not at all.

The Convener: I think that it would be helpful to have a briefing.

Members *indicated agreement.*

The Convener: Can we fit that in?

Eugene Windsor (Committee Clerk): Yes.

The Convener: All right. We will do that.

Donald Gorrie: Can you confirm, convener, that there is no meeting on the week starting 29 November? I know that 30 November is a holiday, but is there to be no meeting on 1 December?

The Convener: That is right.

There is one other thing that I have to mention. Because of the dilemma of paid advocacy, if members are out at a council and are offered lunch, we will have to clarify before Friday whether they have to pay for it. Please do not accept a pint or a sweetie, because that could be seen as paid advocacy, and could actually mean that the members would not be able to say anything about the meeting when they came to this committee.

Colin Campbell: They are taking things to extremes, are they not?

The Convener: I am just running the thought past you. I agree that it is absolute madness, it is crazy. However, the issue is serious enough for it to be looked into. I hope that Eugene will come back to us on that.

Dr Jackson: Is Donald Gorrie going to say a few words?

The Convener: We decided to put that back to the next meeting because of the time, but Donald and Morag Brown from the Scottish Parliament information centre will speak to us.

Donald Gorrie: On what?

The Convener: On the great speech that you made at the conference.

Mr Gibson: The only speech that he can remember is his own.

The Convener: That is right. [*Laughter.*]

Fergus Ewing: Convener, can you confirm that the discussion on rates revaluation will be on 10 November?

The Convener: We will listen to the other two presentations and then consider the time. Professor Curtice is invited too. If there is no time, we will move it on to the next meeting but one.

Fergus Ewing: I have just spoken to Mr Cardwell of the assessors, and the suggestion is—

The Convener: Yes, he is going to come back as well.

The assessors will have copies of the papers from the Forum of Private Business and the Scottish Retail Consortium. They are prepared to come back, speak to us, and answer questions on their assessment of those two papers.

Fergus Ewing: I do not want to prolong things—I know that this has been a long afternoon—but Mr Cardwell suggested to me in a private conversation that it might be useful, given the scheme that you are considering, if the directors of finance had an opportunity to speak about the implementation of such a scheme, especially as we are looking at computer programmes, cost implications and so on.

The Convener: Do you mean the directors of finance through their group or through Convention of Scottish Local Authorities?

Mr Gibson: That was a good point from my esteemed colleague and room-mate. Another thing is whether we will have the opportunity to question the Executive again on this matter. A number of organisations appear to have received this paper from the Executive, but we did not. We have therefore not been able to ask the pertinent questions that we would have done if we had had the paper a couple of days ago.

The Convener: That is a fair point. I will make that clear to the Executive. I have been told by someone at the Executive that we are not on a mailing list that he thought we were on. That will be cleared up. However, this is the second or third time that this has happened, and people from the Executive have appeared and said that they would speak to a particular paper that we have not received. I will take up that issue.

To answer Kenny's question, yes, it could be that, if we wished to question the Executive, we could invite people back. Leave that with Eugene and me. It may need to be put back by another week, because Professor Curtice is coming.

Donald Gorrie: I just happen to have here a few admission forms for the CBI, if anyone would like to join. [*Laughter.*]

The Convener: I do not think that there will be any takers.

Meeting closed at 17:28.

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