

LOCAL GOVERNMENT COMMITTEE

Wednesday 10 November 1999
(*Morning*)

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LOCAL GOVERNMENT COMMITTEE 9th 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 MEMBER ALSO ATTENDED:

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)

WITNESSES:

Patrick Browne (Scottish Retail Consortium)
John Cardwell (Scottish Assessors Association)
Professor John Curtice (University of Strathclyde)
Gerry Dowds (Forum of Private Business)
Mike Flecknoe (Scottish Retail Consortium)
Nick Goulding (Forum of Private Business)
Bill Johnston (Scottish Assessors Association)
Brian Smillie (Scottish Retail Consortium)

COMMITTEE CLERK:

Eugene Windsor

ASSISTANT CLERK

Craig Harper

Scottish Parliament

Local Government Committee

Wednesday 10 November 1999

(Morning)

[THE CONVENER *opened the meeting at 10:02*]

The Convener (Trish Godman): Good morning.

I welcome Professor John Curtice, who is here to discuss his paper. As members know, Professor Curtice was involved with the McIntosh commission, so we return to proportional representation. I apologise to Professor Curtice for the room—if we had gone to Glasgow, things might have been different, but that is another story. This is not the best room to meet in, but you will find that we pay attention, that the questions are usually very good, and that you will have to be on your toes. We will follow the procedures that we have followed before: after Professor Curtice has given his presentation, members will ask one question and a supplementary, and at the end there will be a general question session. We will have a comfort break after we have finished questioning Professor Curtice and will be joined for the next item by Fergus Ewing.

Electoral Systems

Professor John Curtice (University of Strathclyde): I can assure the committee that, by the standards of many university lecture theatres, this is a palatial building.

The remit that I was given for appearing before the committee was to present the report that I wrote for the McIntosh commission, entitled, “An Electoral System for Scottish Local Government: Modelling Some Alternatives”, and to expand and develop thereon.

In interpreting that remit, I have given myself three tasks. First, I shall give a summary of what I said in the report to McIntosh and pick out the crucial conceptual points and the issues that this committee, the Kerley commission and eventually the Scottish Executive ought to consider in deciding on an alternative electoral system to the existing system for Scottish local government elections.

Secondly—and this is not something that I was asked to do by McIntosh—I shall present some arguments on the problems with the existing system. They are also, however, problems that are not widely articulated or understood, even by advocates of electoral change. I shall try to open

up the debate on why we are thinking about alternatives in the first place.

Thirdly, I shall give members some insight into research on the Scottish public’s attitudes to alternative electoral systems in the light of their experience of electing members of the Scottish Parliament on 6 May. The Centre for Research into Elections and Social Trends and the constitution unit at University College London were given a grant by the Economic and Social Research Council to investigate attitudes towards and understanding of the electoral system in both Scotland and Wales in the light of the first devolved elections. That research is just beginning, but I want to give the committee one or two headlines about it, because neither McIntosh nor anybody else has much evidence so far about what the public think.

My first task is therefore to give some indication of what I was trying to say to McIntosh—not that McIntosh always listened to what I said, but that is another story. My first point challenges the way in which people conventionally think about electoral systems. Once one has decided that one wants an alternative electoral system, one should go to a bespoke tailor for it rather than buying something off the peg from Marks and Sparks. We should look for the electoral system that is best tailored for Scottish local government, given the objectives that one wants to set both for local elections and for local government.

Electoral systems do not come in neat packages called single transferable vote, additional member system or alternative vote-plus. They come with a variety of options and ought to be tailor made. I will say more about that later.

The second principal point that I made to McIntosh follows from my first point. In the classic debate about electoral reform, we ask what people think about STV or AMS and so on, but the response is that it depends on what one is trying to achieve. The first intellectual task for anybody who is thinking about desirable electoral systems, including evaluation of the merits of the existing system, is to decide what the objectives of local elections and of local authorities are. The merits or otherwise of electoral systems vary according to what one is trying to achieve. The criteria for evaluating the system therefore vary, too.

The third principal message in my report is that, although one must go to a tailor, if one wants a suit, one cannot give the tailor a specification just for trousers. In other words, there are important trade-offs in devising electoral systems. One cannot have one’s cake, eat it and regurgitate it for breakfast. At the end of the day, one must make choices across desirables; one may find that one’s objectives point in somewhat contradictory directions.

I will draw the committee's attention to two important trade-offs. As I said, STV, AMS and AV-plus do not come in simple packages. Their proportionality depends crucially on the way in which they are implemented. I could find highly disproportional versions of STV; and I could find highly proportional versions of STV. I could find highly disproportional versions of AMS; and I could find highly proportional versions of AMS. I could certainly find highly disproportional versions of AV-plus—indeed, the Jenkins commission justifies its version of AV-plus precisely on the ground that it is not a proportional system. The implementation and the detail matter. That is why the debate should be framed not around systems, but around the things that affect whether the systems will or will not produce proportionality and around the other criteria that we need to bear in mind.

You may now be saying to yourself, "Oh dear—this is going to be one of those terrible academic lectures, in which I am told that the world is terribly complicated and difficult, and after which I will end up with no clearer idea of how to make a decision." Although I have said that you should not look at the world through one lens, my report offers you an alternative and relatively simple lens—but a lens that, in my view, clarifies the choices in devising electoral systems, and clarifies the things that influence the way in which those systems operate.

I will outline four choices. The first is the most boring and the most technical. The report goes into some of the detail; I do not propose to go into it now, but you are welcome to ask about it. It is the so-called allocative rule. At the end of the day, no electoral system—PR or whatever—can produce perfect proportionality. If, for example, we have a local council with 25 seats, which implies one seat for 4 per cent of the vote, you have to decide whether a party that ends up with 2 per cent is entitled to a seat. You have to decide whether a party that gets 6 per cent of the vote is entitled to one seat or two.

The answer to that question is not obvious, and there are different rules for providing the answer. As you probably know, in the Scottish parliamentary election the d'Hondt rule was used. It was also used to provide the United Kingdom's European parliamentary delegation. It is not the only rule, but as it happens—depending on the context—it tends to be relatively favourable to the larger parties and relatively unfavourable to the smaller parties. For example, if you reran the UK European parliamentary elections using a different rule—the Sainte Lague rule—the Conservatives would have five fewer seats, and Labour four fewer, than they do now. The rule you use can make quite a difference under certain circumstances.

The second choice—and the choice that is much more important in determining the proportionality of the system than whether the system is STV or AMS, or whether you use Sainte Lague or whatever—is ward size. Opinion on that is now clear and virtually unanimous. A system will be more proportional the bigger the wards or constituencies that you use. If you have a 25-seat council, and you elect all 25 members in a single district, you can indeed ensure that you get one councillor for each 4 per cent or so of the vote. If on the other hand, the same council is divided into five separate wards with five councillors each, you will realise quite rapidly that you now need about 20 per cent of the vote in that ward to get elected. A party that always gets 10, 11, 12 or 13 per cent of the vote in each of the five wards may well end up with nothing at all; whereas if the council had been one district of 25 seats, it would have got two or three seats. Ward size is crucial to the proportionality of a system.

10:15

The third choice, however—and the choice that can to some extent make it possible to achieve both small wards and proportionality—is to have a number of tiers. The additional member system that was used for the Scottish parliamentary election is one variety of a multi-tiered system. It is a system in which some MSPs were elected at what I would call a lower tier—a single-member ward of very small size and potentially very disproportional; in practice in Scotland such wards are highly disproportional. The effect of that is ameliorated by having a higher tier where the seats are allocated in such a way as to attempt to reduce the disproportionality generated at the lower tier.

There are other methods—the additional member system is simply one way. The outcome also depends on whether there is one tier or, as in the Scottish case, eight different tiers. That is the other way in which systems can vary; to some extent, you can begin to have smaller wards and proportionality.

Those first three choices—the allocative rule, the ward size and the number of tiers—in combination and interaction, primarily determine the proportionality of an electoral system. Whether it is d'Hondt's or Sainte Lague's allocative rule makes much more difference if there are large numbers of small wards. However, if there are large numbers of small wards, and a substantial upper tier—or more than one tier—you can still end up with a system that is proportional. The interaction between those choices primarily determines the proportionality of a system.

The fourth choice—the system of candidate choice—does not have a great deal to do with

proportionality, but as the debate over the European Parliamentary Elections Act 1999 showed, it can generate an awful lot of heat and perhaps a degree of light. At one end of the spectrum there are closed party list systems. In effect, voters can vote for parties, but they cannot indicate a preference for individual candidates. At the other end of the spectrum there are open list systems in which voters are required to indicate a preference for individual candidates. Under systems such as the single transferable vote, they can indicate preferences on more than one list. Voters could vote for a Liberal Democrat No 1, a Conservative No 2 and an SNP No 3. Open list systems simply give voters more than one vote and they can give each of those votes to a different candidate from a different party. The crucial element is that, under an open system, voters are able to express a preference for an individual independently of their party choice.

There are also flexible systems in which voters are permitted, but not required, to express a preference for individual candidates. If they do not express a preference, it is assumed that they like the rank order that the parties themselves put up. Whether the actions of voters will overturn the rank order will depend first on the number of voters who vote against that order and, secondly, on the rules that are used to determine the impact of individual voters' choices. Those rules vary tremendously from one country to another.

The main point, apart from the detail, is the principle of choice. There is a choice between systems that are, at the one end, completely closed and at the other, highly open, with a variety in between.

Those are, essentially, the four important choices to make—the allocative rule, the ward size, the number of tiers and the candidate choice system. Once you have made those decisions, you might discover that you have something called STV or AMS or whatever.

There are a couple of wrinkles, with one of which you are probably familiar. The other is one with which, in the Anglo-Saxon debate on electoral principles, people tend to be less familiar. It has, however, been quite important in debates on French electoral systems.

If we use the example of a 25-seat council, the first wrinkle is that a party that gets around 3 per cent of the vote is likely to do well enough to get a seat, depending on the allocative rule. You may wish to specify that you want a system that is highly proportional but not necessarily one that makes it too easy for very small parties to get elected. Therefore, you would want to set a threshold that is higher than the natural minimum that would otherwise occur.

That is precisely what will be done in the elections to the greater London authority, next year, when a *de jure* threshold of 5 per cent has been imposed instead of what would otherwise be the *de facto* threshold of around 3 or 4 per cent. It was not an issue in the debate on framing the Scottish parliamentary electoral system, because the *de facto* threshold was already about 5 to 6 per cent. However, the threshold can be raised artificially in a system that is otherwise highly proportional by setting a limit.

The other issue—into which I shall not go too deeply—is that it is possible, under party list systems, for parties to declare a linking of their lists. Let us imagine that the red and blue parties decide to put up separate lists, but that both parties recognise that they have a fairly substantial common interest. They do not hate each other. They would like to be able to compete with each other, but they are prepared, to some extent, to form an electoral alliance. If those parties are allowed formally to link lists, under the rules for the allocation of seats, the red and blue votes are added together in the first instance: the lists are combined. If I vote for the red list, that counts as a vote for both the red and blue parties combined. In the allocation of seats, the red and blue lists are regarded as a single list, and the total number of seats to be won by red and blue is a function of their combined vote.

Subsequently, the number of seats that have been won by red and blue parties combined are divided between those two separate lists, according to the individual shares of the votes that they have received. You may wonder what the hell the point of that is. First, the advantage of linking party lists is that, under most proportional representation systems, the parties are likely to increase their probability of winning seats at all, and large parties stand a chance of faring a little better. If red and blue parties regard themselves as parties that might form a coalition, but they are not sure whether they will win 50 per cent of the seats, by combining their lists, they might ensure that they win the extra one or two seats that would give them that 50 per cent. In other words, linking lists is a mechanism for encouraging parties to declare in advance their coalition preferences. Secondly, very small parties that, individually, may not pass the threshold, may, collectively, succeed in doing so. The mechanism can act both at the top and at the bottom of the scale. It would be imposed legally, entirely separately of the other four choices that I outlined.

I have indicated that the first three choices are ways of creating proportionality. I now want to integrate my foregoing comments and describe the way in which a disproportional system can be created. By inference, the converse—how to create a proportional system—should be made

clear. I shall then illustrate, taking a simple example from our reporter, McIntosh, how such things make a difference within systems that are called STV and AMS. It should become clear why the choice is not simply between those two systems.

As I have indicated, if it is desirable to choose an allocative rule that creates disproportionality, the d'Hondt rule would be used—resulting in the system that is used for the Scottish and European parliamentary elections. To create further disproportionality, a local authority must be divided into many small wards—the smaller the wards, the less likely it is that the system will be proportional, however wonderful the allocative rule is. The third rule is to have multiple tiers. If there is a small number of geographically divided top-up seats, the system will be more disproportional. The smaller the number of top-up seats, and the more geographically divided those top-up seats are, the less proportional the system is likely to be. It is not widely appreciated that in no fewer than five of the eight regions in the elections to the Scottish Parliament, the disproportionality that was created by the first-past-the-post tier was greater than the seven top-up seats were capable of redressing. Even in a region with a 9:7 ratio, we still generated quite significant disproportionality.

The fourth way of creating disproportionality—although we can argue about whether this really is disproportionality—is to have systems in which second preferences make a difference to the allocation of seats. Any system, such as the alternative vote system or the single transferable vote system, that allows voters to express second preferences encourages parties to declare in advance potential coalition alliances and, by so doing, to encourage their voters. If the red and blue parties think that they are going to be in coalition after the elections and want to ensure that they have a majority, the red party will tell its people to give their second and lower preferences to the blue party and the blue party will reciprocate. If two parties do that under systems that give voters preferences, they are likely to end up with a larger number of seats than one would expect, given their share of first-preference votes. On one famous occasion in Ireland, which uses STV, the combined first-preference votes of Fine Gael and Labour fell as compared with the previous election, but they managed between them to secure office because they persuaded their voters to transfer their second preferences.

As I have indicated—and here we come to the wrinkles—high formal thresholds are another way of creating disproportionality. That may all sound wonderful in theory, but does it really make a difference? Let us take the example of Glasgow in 1995, using a simple index of disproportionality—examining how the proportion of seats won by

each party varies from the proportion of votes.

First, I have compared the outcomes under STV in two sets of circumstances. In the first set of circumstances, I use three-member wards; in the second, I use six-member wards—in other words, they are twice as big. I have held everything else constant—the second preferences have been held constant, there are no upper tiers and so on. What this illustrates clearly is the impact of ward size within the same system. With three-member wards, my simulation suggested that there would be disproportionality of 13 per cent, but with six members per ward there would be disproportionality of 8 per cent. Doubling the size of the wards from three to six members has a substantial impact on the disproportionality exhibited.

My second comparison is between two varieties of the additional member system. Here I illustrate the potential impact of the number of top-up seats that are available. I have applied the top-up across the whole of Glasgow, rather than dividing the city up. In the first case, I assume that 75 per cent of Glasgow's councillors are directly elected and that 25 per cent are top-up members. In the second, the division is 50:50—that is the system that is used in Germany. With only a 25 per cent top up, we get disproportionality of 8 per cent, the same as with the six-member constituency under STV. However, if I choose 50:50 AMS, with the 50 per cent of top-up members allocated across the city as a whole, I get an outcome that is almost perfectly proportional. Because I am operating a system with a large proportion of top ups and not dividing those up, I get high proportionality. Once again, it is clear that under AMS the details of the system make a difference. That is why I say that the real issues are the size of wards, the nature of the tiers and, to some extent, the nature of the rule governing allocation, rather than a simple choice between STV and AMS. The details are fundamental.

As I said, the second point that I made in my report to McIntosh was about the need to think about objectives before getting lost in the details of the system. You need to know what you want to achieve before you start worrying about how to go about it, as the arguments about what you want to achieve are the crucial normative arguments. You can get boring anoraks such as me to work out how to deliver your objectives—you just need to ensure that we are not telling you too many porkies.

10:30

I want to move on a little from the report, as it would not be helpful for me simply to reiterate what I told McIntosh. First, let me remind the committee of what I regard as the McIntosh-Kerley

objectives. I want to suggest that other objectives, implicit in the McIntosh report, are relevant to devising an electoral system in Scotland and I want to illustrate that there are conflicts among the objectives.

The first criterion that McIntosh puts forward is proportionality. We have already talked about that. The second criterion is the councillor-ward link, about which I will talk when we consider the first-past-the-post system. It is clear to me from the debate that the Parliament had on 2 July that the subject inspires considerable enthusiasm. The third criterion is the fact that Scotland votes for a few independent candidates—McIntosh implies that we should not construct a system that makes it impossible for independents to be elected. The fourth criterion is that Scotland is a varied country and it might not be possible to have the same system for Glasgow as for the western isles. The fifth criterion, which has come out of the arguments with the existing local government boundary commission for Scotland, relates to the wish for ward boundaries to reflect communities rather than lines on a map.

Members will be familiar with all that. It will be obvious to them that there is a conflict between the desire for councillors to represent relatively small wards—as they do if the councillor-ward link is defined in the conventional sense—and the desire for proportionality.

The other factor—which might not seem to be a McIntosh-Kerley objective but which I think of as one—is the issue of appropriate numbers. If Kerley were to come to the conclusion that efficient delivery of services and effective community leadership could be delivered by 20 councillors in every council in Scotland, it would not be desirable to set that as the ideal number of councillors if it prevented proportionality from being achieved or the representation of communities from being enabled. Kerley's recommendations on the number of councillors need to take into account the other factors that the electoral system has to deliver.

Other objectives are implied by McIntosh—I think that some of them are more important than the objectives that McIntosh explicitly set out. The first element is that, as I said, we have to think about what we want councils to do, rather than only what we want the electoral system to do. McIntosh sets out a clear objective for councils: he says that they are about providing services and representing their communities. We have to find the most effective way in which councils can do that. Do we believe that the best way is to ensure that a council is a microcosm of the political preferences of the electorate, in which case we would want a highly proportional system, or do we believe that the best way is to have majority

governments in councils?

The second element is that, as McIntosh has rejected the idea of elected provosts—for the time being, the Executive has rejected the idea—and proposes cabinet administrations instead, we need councils that are capable of sustaining an executive. Councils will still have to maintain an executive—if no one can form a majority administration, that may imply that a totally proportional system is inappropriate.

The third element, which I think is particularly important, is that although McIntosh wants to increase proportionality—by implication, proportionality for parties—the report also says that parties should be less important in Scottish local government decision making. In particular, it calls for less use of whips. Those are wonderful words, but we need to think about how we construct a system for local government that ensures that there are incentives for that to happen. If we want a system that allows councillors to vote against a whip and that encourages councillors to think for themselves rather than follow the party line, we may not want a closed party list system, which makes it easy for a party to get rid of awkward councillors by putting them at the bottom of the list. If we want to reduce party power in local government, we need to devise an electoral system that does not reinforce party influence.

Another element relates to the criticism that local government is too involved in details. That is an argument about the need for councillors to be more strategic—they need to be more concerned about the broad strategic direction of their authority and less concerned about the fine detail of which pavement currently needs mending. That may imply that some councillors should be elected to represent not small wards, but large geographical areas, which would give them an incentive to think about the district as a whole rather than in terms of individual wards.

What we want councillors to do has a clear implication for the kind of electoral system that is needed. If we want councillors to be involved in discussing which pavement has not been repaired, we may want small wards. However, if we want councillors who are concerned about the broad strategic direction of services, we may not want councillors to be elected in small wards.

The other two elements that we have to take into account are voter choice—whether voters should have as much choice as possible—and voter comprehension. Voters do not have to understand the relationship between seats and votes—to be honest, I do not think that many people understand that relationship under the first-past-the-post system, let alone under proportional representation. The cognitive task in which voters

are required to engage in the polling booth needs to be one that the vast majority of the Scottish public can tackle straightforwardly.

Those are some of the objections that need to be borne in mind. Some aspects of the McIntosh report that are not explicitly linked to the electoral system imply that there could be cross-pressures. We need to recognise the existence of trade-offs. As I have said, small wards produce low proportionality, all other things being equal. There is potential for conflict between some conceptualisations of the council-ward link and proportionality. There is no way in which we can have all councillors elected in small wards and secure proportionality. Those elements are in direct conflict with each other. It may be possible to ease the trade-off by introducing multi-tiering, through the additional member system, for example. However, the implication is that the additional member system that is used must be one in which a relatively large number of councillors are elected for fairly large districts. Even then, if some councillors are tied to their pavements, the price of achieving proportionality will be to have others tied to a relatively large area.

Another factor, about which I have not said much but which is important, is complexity. You may believe in open lists and that voters should be able to choose between candidates, but if you also want large wards so that there can be a high degree of proportionality, a problem of complexity could arise.

If, for example, we have open lists in wards that elect 10 or a dozen councillors, that will ask voters to make judgments about a large number of candidates. If we assume that the four major parties each put up eight or 10 candidates in the wards, that makes 40 candidates—with a few other parties, the ballot paper could have 60 names on it. There is a limit to how far voters can be expected to make meaningful judgments about a large number of candidates. The solution could be a flexible list, where voters can overturn the party ranking if they want, but do not have to. That reduces the cognitive task and enables voters that do not want to engage in that choice to ignore it. Those are two crucial trade-offs that we should be aware of in considering a system.

Let me move on from McIntosh. I said that I wanted to assess the validity of the arguments for the existing system and to ask why we were considering change. Some aspects of change have not been widely articulated. There are two clear arguments in favour of the existing electoral system, which are perfectly defensible in terms of democratic theory.

The first is that voters should decide who rules on the council. The argument says that the most

important thing is not that every individual vote is faithfully reflected on the council, but that the voters decide who the leader of the council will be—as with the Prime Minister. Being able to determine who forms the executive is more important than determining the fine detail of the composition. By generating majorities for the largest party, first past the post ensures that voters determine the colour of the executive.

The second argument is that the councillor-ward link ensures that councillors and political representatives have a close link to individual voters.

My problem with the first argument is that first past the post cannot be relied on to achieve the objective that is set for it. I have no problem with the Labour party winning 74 out of 79 seats on Glasgow City Council on 49 per cent of the vote if, and only if, any other party that got 49 per cent of the vote also won 74 out of 79 seats. I would have no problem if the system were colour-blind in relation to the level of exaggeration. If the Labour party gets 49 per cent of the vote, it gets 74 seats, and if the SNP gets 49 per cent of the vote, it would also get 74 seats—that strikes me as fair, at least using the criteria of the traditional defence of first past the post.

The problem is that that statement does not hold. The most interesting thing about the 1999 local elections in terms of the thinking about changing the system is not the results in Glasgow and Edinburgh—which people point to as examples of terrible disproportionality—but the fact that no less than 13 of the 32 councils in Scotland, despite the use of first past the post, ended up with no overall majority. The existing system fails to deliver—on any regular, reliable basis—single-party majorities in Scottish local government. If we want single-party majorities on a local authority level, it is not the right system—it is not delivering—so we would have to think of something else.

The second problem with first past the post is that it cannot even be relied upon to identify the correct winner. Let me remind you of what happened in Dundee this year: the SNP got 36.4 per cent of the vote and Labour got 36 per cent, yet Labour got four more seats than the SNP. Edinburgh in 1992 is an even more notorious example. Labour got 29 per cent of the vote and the Conservatives got 40 per cent, but Labour ended up with seven more seats than the Conservatives. Just in case you think that it is always Labour that benefits, in East Kilbride in 1974 Labour won more votes than the SNP but ended up with two fewer seats. The system does not necessarily even get the winner right.

10:45

The third element is that, as I implied, even when the system gets the winner right, it is not even-handed in its exaggeration. One can play games—some of this is in my report to McIntosh—and ask what would happen if there were uniform movement in an area so that the SNP were as far ahead of Labour as Labour is ahead of the SNP now. One discovers that, with the same lead, the SNP would not necessarily get as many seats as the Labour party does.

That happens because, in first past the post, there is no regular or reliable relationship between seats and votes at council or national level. The result depends on how parties' votes are geographically distributed. I could demonstrate how some geographical distributions are advantageous in some circumstances but not in others. For example, a party whose vote is evenly spread geographically may come second in wards across the council and get very few seats. At a certain level of support, the party with even support will come first and, suddenly, everything falls into its lap—it moves from having nothing to having virtually everything.

However, a party that does very well in some places but very badly in others will tend to do relatively well if it is narrowly in first place. Everything depends on geography. Do we want the results at council level in Scottish local government to be a function of electoral geography?

The second main argument for first past the post relates to the councillor-ward link. In my view, that concept needs an awful lot of unpacking. What is the councillor-ward link under the single-member plurality system meant to deliver? As I understand the argument, it is meant to deliver two things. First, it is meant to deliver accountability—every councillor is accountable to a body of electors for their custodianship in the previous four years, or whatever, and their fate will be determined by the votes of—potentially—all the people in the ward, rather than by the votes of those who like that party and who may be making a choice between individual candidates of that party.

The second thing—as I understand the argument—that the councillor-ward link is meant to deliver is service. Because every councillor represents an individual ward, they have a clear incentive to demonstrate that they are interested in the needs and demands of that ward and to ensure that they look after the problems and interests in their ward in terms of the requirements of community groups and individual constituents.

If we accept accountability and service as desirable, we should consider what is the best system to achieve them. It is not entirely clear to

me that single-member plurality is necessarily the best means of achieving those two desirables. The first point on that is fairly obvious: many councillors have safe wards, so it could be argued that their incentive to engage in the service function is limited and that accountability for their individual actions is nil.

The second point is not widely appreciated but was used by the UK Government as an argument for defending the European election, so I take the Home Office as my source. The single-member plurality system is a closed party list system—it is a closed list of one. Most voters in Scotland vote on the basis of party label rather than on the merits of individual candidates—not entirely, I accept, but it is true for the most part, especially in central Scotland.

Therefore, it can be argued that we already have a party list system—with a party list of one. Few councillors are accountable for their individual merits, as opposed to the merits of the party for which they stand. That was the argument that the UK Government used—"We already have a closed list system"—to defend the use of a party list system in European elections. I suggest that closed lists will not deliver accountability for a individual councillor's actions.

The third element has been particularly problematic in Scotland in recent years. Because of the constant changes to ward boundaries, it is not necessarily the case that an individual councillor is accountable to the same body of voters that he or she has represented for the past four years.

The final element is that there is an inherent contradiction between the first and second arguments in favour of a first-past-the-post system. The first argument is that elections are really about enabling voters to decide who runs the council—which political party should be in control. That implies a system of strong party control, where councillors who are elected for the controlling party will defend the policy of that party, even if it is not necessarily in the interests of their ward.

A system where individuals look after the interests of their wards is a system where party is weak. A similar system operates in the US Congress, where congressmen regularly defy the party whip because their voters tend to vote for the merits of individual candidates rather than for the party for which those candidates stand. In such a system, a party may not be able to rely on the backing of a majority of its councillors.

I will say a little about public opinion, based on academic survey evidence collected just after the Scottish Parliament elections. Are people wise after the event? A section of the UK population

experienced for the first time at least a type of proportional representation. What did they make of it? We asked voters a number of questions, such as whether they thought that we should keep to the new way of voting, because it was a fairer system, or use the old way of voting, because it was more effective at delivering strong government. In the light of experience, at least on this occasion, the Scottish public seemed to be 2:1 in favour of a PR-type system.

With some foresight, we even asked them whether they agreed or disagreed that we should use the same system for local government elections. Forty-five per cent agreed, 15 per cent disagreed—members will be able to ascertain from that that a fair number either do not care or do not know. This topic is not necessarily the most exciting for the general public.

The survey also contained a number of other indicators, which we put to the Scottish electorate in 1997, about whether PR should be used for both Scottish Parliament and UK Government elections. In all those indicators, there was clear movement towards PR between 1997 and 1999. The broad judgment has to be that the experience of 6 May 1999 has made the Scottish electorate on the whole somewhat more sympathetic to PR in principle than they were previously.

However, we should not run away with the idea that, even with that experience, the Scottish electorate are entirely consistent in their views. One of the long-standing findings of research in this area is that the answers obtained are very much a function of the questions asked. We asked people the broad, important, intellectual questions, which I have articulated, about whether elections should be about producing a clear winner or a fair result. That relatively abstract question still produces an almost 50:50 split. There is still room for argument on both sides about the merits of the PR system.

I will give my conclusions in reverse order. First, from what I have seen so far, a reasonable supposition to make is that, should the Scottish Executive accept a recommendation from the Kerley commission for a PR system, endorsed by this committee, the odds are that the public would support that change.

Secondly, first past the post does not necessarily achieve the objectives that are set out for it. If you want councils to have elections that are about controlling who runs the executive rather than the council as a whole, you should go for elected provosts; first past the post is the wrong instrument.

Thirdly, if you accept the arguments that there is a movement for change and that first past the post is not satisfactory, finding the best alternative

implies hard choices and clear thinking. There is a better way of looking at the debate about alternatives than the one that is commonly engaged in.

The Convener: Thank you. Lots of interesting information there. Who wishes to speak?

Dr Sylvia Jackson (Stirling) (Lab): I am trying hard to think clearly about your last point—it has got a lot of things going on in my head. You mentioned that you asked a question about a clear winner and a fair result and that each option achieved roughly 40 per cent. Are you saying that the clear winner was, to your mind, allied to first past the post?

Professor Curtice: I am arguing that first past the post is not good at delivering a clear winner, as 13 out of 32 councils did not get a clear winner in 1999. If you believe that local elections should be about clear winners, you should be arguing in favour of elected provosts and not first-past-the-post systems. Elected provosts will—unambiguously and fairly, and in a colour-blind fashion—ensure that the party that wins the most votes controls the executive. First past the post cannot be relied upon to deliver that.

Dr Jackson: I totally agree; that would have been my conclusion too. However, I wondered whether that was a fair question. Does what you have said not make it confusing?

Professor Curtice: The answers one receives to questions on electoral reform are a function of the wording of the question. This was an attempt—and I will happily send you the fine wording—to come up with a question that carefully balanced the arguments that are commonly used on both sides, in a way that was intelligible to the public. I think that I did a pretty good job as I managed to split the Scottish electorate right down the middle. If we ask people, “Do you think that we should change the electoral system to ensure that small parties get their fair share, or should we keep the existing system, because it produces strong government?” we will get a vote in favour of the existing system. If we say, “Do you think that we should change the electoral system to proportional representation, because it is fairer?” we will get a majority in favour of that. This survey contains both those questions.

I was trying to come up with a balanced question rather than one that was biased in one direction. I would argue that I succeeded. This clearly demonstrates that, ultimately, arguments about electoral systems are not simply about the technical merits of one system or another. They are arguments about the normative objectives of elections. In relation to the defence of, or attack on, any electoral system, two questions should be asked: one, whether this is the right objective; and

two, whether this is the best means for delivering that objective. Any proposal has to be evaluated on those two criteria. To campaign to the Scottish public that we should have elections that produce clear winners is not necessarily to try to walk up a down escalator.

Johann Lamont (Glasgow Pollok) (Lab): In a sense, what you are doing is searching for an electoral system that meets more than an academic view of what an electoral system should be like; in other words, one that can exist in the real world. My view is that you want communities to be able to affect decision making at local government level in a way that might be impractical at other levels. You would aspire to having local members who respond to local needs.

On the point that you made about electoral geography, in a city such as Glasgow it is understandable that, because of historical party identification, there is an electoral geography that is matched by a political geography, which arises, for example, from the density of need in Drumchapel compared with Bearsden. If people identify with political parties on the basis of the level of poverty, that would influence the political and electoral geography.

Are there other trade-offs that we should consider? Are there issues with regard to voter reaction that arise from the use of different electoral systems across different layers of Government, at Scottish, Westminster, European and local government levels, that we should be aware of? Do you have a view on, or are there any data on, the consequences of having different systems in local government—for example, having different systems in the Western Isles and Glasgow?

11:00

Professor Curtice: I will take your questions in reverse order. Pull me up if I forget to address any of your points.

First, I will address your question of whether we can have a different system for Scottish local government compared with that for Westminster or the Scottish Parliament or whatever. The question is, will voters be faced with too many alternatives? My reaction to that question is mixed. First, we are already in that world. In May, voters had to deal with first past the post and the additional member system. In June, if the same voter bothered to go to the polling station, they were faced with another party list system. In some senses it was exactly the same as the second vote for Scotland, but because the Home Office designed its ballot papers differently from the way in which the Scottish Office and the Welsh Office did, it looked horribly different. Westminster will still be first past

the post, but if Jenkins is introduced, we will have yet another different system.

It is not uncommon for voters to use different systems for different purposes. For example, Northern Ireland's voters happily use STV for some elections but first past the post for Westminster. In France, local elections tend to be run on a party list system whereas they use the two-ballot system for elections to the legislature. It is not often realised that in the United States local elections are not necessarily undertaken using first past the post, and that STV has been used there. Even if we look at local government in England, voters do not get terribly confused by the fact that sometimes they are asked to put two or three votes on a ballot paper because they have multi-member ward elections and only one vote in parliamentary elections. We are already in the world where different electoral systems are used for different purposes.

We must think about the cognitive tasks of the voter. At the end of the day, the real reason why there was no serious problem on 6 May is that the cognitive task that the voters were being asked to engage in was exactly the same as before, which was to put an X on a ballot paper. Indeed, we made life even easier for voters because they did not even need to read the ballot paper to understand who to vote for; they could just look at the pictures. Cognitively, voting by marking an X, however the vote is then treated, is exactly the same task for the voter. That might lead people to say, "Therefore, we should not have a single transferable vote system". However, the Jenkins system, if it ever sees the light of day, requires voters to engage in two separate cognitive tasks. On the alternative vote they will be required to mark 1, 2, 3, 4 and 5, and on the top-up vote they will have to mark an X. Jenkins has come to the conclusion that two cognitive tasks can be run in the same system, so I am not sure that any of the issues that have been raised are decisive. There are experiences of voters being asked to do different things in different elections, and it is even being proposed that they do different things at the same election and that that does not cause a disaster.

Your last point was about different parts of Scotland. There are a couple of issues to be addressed. One point that flows from my comments is that, given that we can run, for example, STV or AMS or any other system with different ward sizes and with different tiering structures, we may want wards to elect different numbers of councillors in Glasgow compared with the Western Isles.

The potential for flexibility is there, even though STV or AMS may be in place across the whole of Scotland. After all, under the first-past-the-post

system, the number of electors per ward is smaller in the Western Isles than in Glasgow. It is not unreasonable for different councils to have different ward sizes, for example, two or three-member wards in the Western Isles and six or seven-member wards in Glasgow. It may be that parties that do relatively well in rural parts of Scotland will lose out, because the system will be less proportional, but at least the system will be fair within the district.

It becomes rather more difficult to accept the argument for four or five-member wards in towns in the Borders, but for smaller wards in the rural districts. The danger is that that will create a bias in favour of one party. For example, when Lord Jenkins was writing his report he came up at first with the idea of STV for the cities and the alternative vote for rural districts. It took a little while to persuade him that that would mean that the Labour party did not benefit from proportionality in the rural areas, but that the Conservatives benefited from proportionality in the city areas. A little bit of computing persuaded him that it was a wonderful Conservative gerrymander and the idea was dropped. If we have smaller wards in the rural parts of a Scottish local authority and bigger wards in the cities, we may end up with another Conservative gerrymander. We need to watch out for that.

At the beginning, you made two points. I have forgotten them, but you may want me to pick up on them.

Johann Lamont: I mentioned the issue of safe seats. Often in this debate there is a theoretical discussion about which is the best system, but the problem arises when it comes to dealing with the stubbornness of voters in safe seats, who become an immovable force that cannot be worked around. You seem to suggest that the electoral system must address the fact that there is a geographical bias built into Labour's support. That is understandable in economic terms in a city such as Glasgow. However, theoretically, anybody can vote for anybody.

Professor Curtice: As you will be aware from the way in which the top-up element of the system for the Scottish Parliament works, when you move to any kind of party list system, AMS system with a substantial number of top-up seats or STV, every district becomes, in effect, a marginal seat. In almost every case, it will be open to doubt who wins the last seat. Drumchapel, for example, is very Labour. Even so, the Labour party will not win more than two thirds of the vote there and often less than that. Of the four or five seats in the area, the Labour party will not get more than three. There may well be a real scrap for who gets the fourth and fifth seats. No area is safe, therefore, because under any conceivable system of

proportional representation at least one of the seats in almost every area will be up for grabs.

The Convener: I will hold you there. Four people have indicated that they want to speak.

Mr Michael McMahon (Hamilton North and Bellshill) (Lab): When I first examined this issue, I had no definite beliefs about electoral reform, but I was more in favour of it than anything else and I favoured the alternative vote system. However, having heard the arguments and examined the issue more closely, I am becoming more and more in favour of first past the post. I will explain why that is.

I have heard it argued that the alternative vote system hardens up disproportionality. The single transferable vote divvies up responsibilities in each electoral area. There is a politicisation of the local community. The same thing happens with the additional member system, which we have for Parliament, where there is a politicisation of surgery work. Certain list MSPs only take on the high-profile work that will get them publicity and do not want to do the nuts-and-bolts work. Proportional representation does not deliver proportional representation, as the European election showed, and it is centralising.

We may be looking at this from the wrong angle. We should not be considering what electoral system people want, but what they want from their elected representatives. We should go back down to the grass roots, ask what people want from a local councillor and consider what they get from first past the post: a representative of a party who is responsible for the whole electorate, regardless of who they voted for. Those members are directly defined and have a clear role. We should consider what the councillor delivers, not what the electoral system delivers.

Professor Curtice: I agree that we should devise a system to deliver what the Scottish public wants. However, some of the arguments that I hear against multi-member representation strike me as a fear of competition. Once there is more than one representative for an area, there is potential for competition amongst politicians to ensure that they are popular in the area. For the most part, that is a good thing. We are told as a work force that we must be flexible and accept the forces of competition. I would argue that those arguments apply as much to politicians as they do to any other group in society. We must bear in mind that political competition amongst representatives exists in local government in England. Almost all wards in England have more than one representative, yet the world has not fallen down in terms of adequate representation. I am unsympathetic to those kinds of arguments.

When members say that other members divvy

up the area and look after various parts of the ward, the argument against that is not that people are not engaging in the service function; the argument is that the service function becomes too important. The argument that is used against the single transferable vote in Ireland is not that it prevents members from representing their individual constituency, but rather that it sets up too strong an incentive for them to do so.

How do you compete as an STV candidate in Ireland, given that many voters want their Teachta Dáil to defend their particular interest? The way to compete is for a member to be well known in one area of that multi-member constituency, to serve it well and get sufficient first-preference votes from their party's supporters in that area to ensure that they get sufficient electors in that area to get elected.

The system, through political competition within political parties, encourages the service function rather than discourages it. If I wanted to argue against it, I would do so on the grounds that it is too powerful an incentive to deliver service level functions.

The Convener: As five members still want to speak, I suggest that you ask a question rather than tell a story and then ask a question.

Mr Gil Paterson (Central Scotland) (SNP): Will you comment on the perceived disfranchised, the people who do not vote? For example, in Drumchapel people may not vote because of the legions of Labour voters—60 per cent of the people did not vote in the first place—which means that they believe that Labour will get in anyway. In Bearsden it may be the same story with another party. What impact will a change of system have? Will it encourage more people to exercise their vote?

11:15

Professor Curtice: Unlike some proponents of PR, I would never sell PR to you on the grounds that it will have a dramatic impact on turnout. Research evidence, based on the statistical analysis of the electoral systems of different countries, suggests that countries with PR systems tend to have a higher turnout of about 2 per cent to 4 per cent. That is a marginal, not dramatic, effect.

The potential for increasing turnout might be greater in local elections where the turnout is already lower. However, whether turnout is increased as a result of switching to PR will depend as much on the reaction of political parties as on voters saying, "Gee whiz. My vote now counts with this new system, so I'll go and vote". One of the lessons from the European Parliament elections is that, if political parties fail to

understand how to campaign under a new electoral system, voters stay at home. Even with the world's most proportional system, if there is no election campaigning, voters will stay at home.

If we change to a proportional system in Scotland, we can expect more voters to vote for their first preference party. In large parts of Scotland, the Liberal Democrat party and Conservative party do not put up candidates, because they cannot find them. In a multi-member ward of six or seven, only one candidate will be needed to fight that geographic area. As a result, there will be more political competition, as all the parties will be fighting, which could mean that some voters who currently feel disfranchised would vote.

However, I will not tell the committee that PR would increase turnout in Scotland from the typical 45 per cent to 60 per cent. To be honest, increasing the probability of people voting in local government elections will mean increasing the powers of local government. Some of my recent research on voting behaviour suggests that one of the reasons why people do not vote in local government elections is because they do not think that it makes any difference who runs the show, as councils do not have any powers.

Mr Kenneth Gibson (Glasgow) (SNP): The electoral registers are always shockingly out of date. People underestimate the fact that, particularly in poorer areas with a high turnover of population, electoral registers can be 10 or 20 years out of date.

Professor Curtice: The Home Office is proposing legislation for a rolling electoral register in the next session of the UK Parliament. I hope that will sort out the 19th century problem of electoral registration procedures.

The Convener: Was that your question, Kenny?

Mr Gibson: That was a comment.

The Convener: Comments are not allowed when we are running over time.

Mr Keith Harding (Mid Scotland and Fife) (Con): I enjoyed your presentation, although I did not realise that Lord Jenkins was a Conservative.

I was going to ask the question that Gil asked about whether research has shown that PR will increase turnout. Is there a case for introducing compulsory voting?

Professor Curtice: The committee will be aware that some countries, such as Australia, have compulsory voting. I think that it is the politician's job to engage voters' interests; and if voters think that the politicians are a load of rubbish, they have the right to stay at home.

The Convener: Good answer.

Bristow Muldoon (Livingston) (Lab): As some of my questions have been asked by other people, I will not repeat them.

There was some voter confusion in the Scottish Parliament elections, particularly about the second vote. For example, in Lothians, where there were 17 different candidates, Arthur Scargill's Socialist Labour party scored 10,000 votes. That is probably an example of people mistaking who they were voting for—to somebody reading the ballot paper, Socialist Labour party and Scottish Labour party could seem quite similar. There was some confusion.

Another issue was that people who were voting Labour in the first vote knew that their second vote could not possibly elect another Labour representative, so they spread their votes around.

The third issue is how to protect against triviality, such as the Witchery Tour candidate, when there is a large list system? That adds to the complexity of the ballot paper.

Mr Gibson: And how do you find candidates such as the Lib Dems and Conservatives? *[Laughter.]*

Professor Curtice: To answer your third question, the mechanisms to deal with triviality involve the number of signatures, as well as the level of the deposit, that are required with each nomination.

You also asked about confusion—

Bristow Muldoon: No, not confusion—

Professor Curtice: The tactical squeezing.

Bristow Muldoon: What is the point of voting Labour with your second vote in Glasgow?

Professor Curtice: In my view, the additional member system caused greater confusion among returning officers than among voters. In a study of the Scottish parliamentary election, we asked people whom they had voted for in the first and second votes, and how they would have voted if they had been given a ballot paper to indicate their first and second preference. In the first vote, 88 per cent of people voted for their first preference party, and on the second vote it was 83 per cent; so there may have been a little bit of what you are suggesting, but not an awful lot. Those figures do not indicate to me a high degree of voter confusion.

Only 2 per cent of voters voted for the whole gamut of smaller parties in the first vote, but 11 per cent did so on the second vote. That demonstrated a substantial understanding of the system, which was encouraged by some pretty effective campaigning by some of those parties, especially the Greens in Edinburgh and the Scottish Socialists in Glasgow, who were

specifically asking voters to vote for them in the second ballot. Voters' understanding of the system is partly a function of what politicians tell them. Some of the smaller parties persuaded voters that the second vote could matter and could get them elected. Indeed, they succeeded in getting elected.

There was surprisingly little tactical voting in the first vote. If people were not voting Labour with their second vote because they felt that Labour did not have a chance of getting any more candidates through, Labour's vote should have gone down especially heavily in the north-east of Scotland, where they were never in a month of Sundays going to get a top-up seat, but it did not. In other words, there is not a clear relationship between the probability of the Labour party not getting a top-up seat and people not voting for it in the second vote.

Only about 4 per cent of people reported that they had voted tactically on the second vote. Despite various attempts, including those that I made myself, to explain to people how the system worked and what strategic considerations there were, not many people voted strategically in the second vote. However, if you want to stop such voting, you should have a system that ensures that there are sufficient top-up seats, because then virtually every party has a chance of being elected.

A criticism of having a 9:7 ratio of first-past-the-post candidates to top-up candidates in small areas is that it generates the strategic opportunities that you refer to. There is a similar problem with the Jenkins recommendations: if they are ever implemented, they will really encourage those kinds of strategic arguments. One of the criteria against which one should evaluate any electoral system is the degree to which it is open to strategic manipulation. On that criterion, Jenkins fails badly, and the Scottish Parliament system ain't too wonderful.

Bristow Muldoon: May I ask—

The Convener: No, I would like to move on. I will let you come back in if we have time, but I would like to stop at around half-past 7 and we have other people to hear from. Not half-past 7; I meant half-past 11, although the way this is going it will be half-past 7. But I will come back to you, Bristow, if I can.

Donald Gorrie (Central Scotland) (LD): I cannot see how we can fairly accommodate independents, or how we can achieve the McIntosh committee's goal of reducing the stranglehold of the parties on individuals, unless there is some form of transferable vote—whether it is STV or something else. I was wondering whether I had missed something.

Professor Curtice: No, you have not. I did not proceed from how I thought all the objectives should be implemented. The obvious implication of my remarks about whipping and independents is that a pretty open system is required. The single transferable vote system is the most open and does not assume that there will be independents. Those are the criteria on which STV scores. The criterion on which it is weakest is voter complexity, because STV cannot accommodate large wards. That constrains the degree of proportionality that the system can deliver. There are ways around that—technically, we could consider top ups to STV.

The strong points of STV are that it weakens party, is very open and allows for independence. It also allows wards to be constructed that correspond to natural communities, because the size of wards can be varied somewhat. However, it is not the best system in terms of proportionality, and problems can arise with voter complexity. Those are the trade-offs that have to be considered when evaluating STV.

Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD): What you have said, professor, will go down like a lead balloon in the Highlands. To what extent have you taken into account the system that we have in the Highlands, in which, if we are honest about it, people tend to vote for the person more than for the party? Fergus Ewing and David Stewart, for instance, hold the same seat in the Scottish Parliament and at Westminster, which suggests that some people change their vote depending on who the candidates are.

Professor Curtice: That is another argument in favour of a transferable vote system that delivers proportionality if voters want it, but enables them to vote for individual candidates. Translating into action the McIntosh criterion of independence means bearing in mind the distinctive culture of the Highlands and Islands.

I want to make two further points, one of which was a surprise to me. First, I would say that in 25 years' time the independent tradition will be dead in the Highlands and Islands, even if we retain the current system. It has already died in most of rural England, and signs of the politicisation of local government are beginning to appear in the Western Isles. Having said that, it is still true that, even when the system has become politicised, the merits of the candidates count for more in the Highlands than in the central belt.

Secondly, the argument about changing the electoral system has been going on for some time, during which I have given a number of presentations to council leaders. Without naming names and embarrassing people, I have been surprised to be told on more than one occasion by

councillors in the islands that they would welcome larger multi-member wards, because they find the particularist pressures to which individual councillors are subject under the current system unhealthy.

Mr Gibson: I hope that Michael McMahon's views on the first-past-the-post system have not been coloured by his experience of the partnership agreement.

Mr McMahon: I was thinking about the list members.

Mr Gibson: Michael and Bristow were arguing that AMS was particularly flawed. Michael was also saying that it is important for voters to have a member to whom they can turn. Is it not the case that the STV system gives the best of all worlds, because it allows not only for competition between parties, but for competition within parties?

In some parts of the country—such as Glasgow, in the case of the Labour party, and Banff and Buchan, in the case of the SNP—the process is more about getting selected as a party candidate than getting elected. With STV, by contrast, the Labour party might put forward three or four candidates in a five-member ward, only two of whom would be elected because the system allows voters to choose which of the candidates they want to represent them. They may feel loyal to the party, but think that the person who has been representing them is not particularly gifted. STV allows them not to vote for that person, while continuing to vote for the party. They could, for instance, give their first and second-preference votes to Labour and their third-preference vote to the SNP, putting the candidate who they felt had not been particularly effective to the bottom of the list.

Professor Curtice: That is the classic argument in favour not only of STV, but of any open party list system. It obviously encourages competition between candidates of the same party. For the most part, candidates will not be able to compete with one another by having different policies, although, on occasions, individuals may be known to be more left or right-wing within their parties.

If what matters to voters about their councillors is the quality of service, they will be able to express that: they will vote for the candidates whom they think will give them good service or who have done so, and will not vote for the others. It would be clear that those who were elected had been elected on that basis. If voters do not care about quality of service, but want councillors who are really good at engaging in strategic direction of their authorities, they will vote on that criterion. It will be up to voters to decide the criteria for competition on which individual candidates from the same party will compete with one another.

11:30

Colin Campbell (West of Scotland) (SNP): I was interested in the point about confusion. I always thought that the Greens did amazingly well in the 1989 European elections in West of Scotland because their man was called Campbell—but that is perhaps due to personal prejudice.

John made the distinction between strategic councillors and broken-pavement councillors. That distinction could be balanced by additional members, but do you believe that that division of priorities would be workable in a council?

Professor Curtice: It is perfectly workable, if members of a political party can agree to engage in the division of labour. It concerns the way in which parliamentary parties or councils decide to organise themselves.

The problem is contained in the report that I gave to McIntosh. All things being equal, losing parties will tend to receive more of the top-up seats. The party that is most likely to run the council, as it has the majority, may have a relatively small proportion of top-up councillors. Given that the party that most voters might want to have some sense of strategic direction is the party that is running the council, AMS might not deliver the councillors with a strategic interest where they are wanted.

The other problem—which is on-going—is that, under an AMS system, a member might be reasonably happy to be elected as a top-up member, but might reckon that their long-term political career could be advanced by trying to win a single-member constituency—perhaps one of the constituencies in their region. The top-up member might have the incentive to engage in as much pavement politics as the existing constituency member because they are hoping to unseat that member at the next election.

The Convener: I hope not, in this instance.

Colin Campbell: Of course I am. [*Laughter.*]

The Convener: I thank Professor Curtice very much. I apologise to Johann and Bristow: I do not have time to allow them supplementary questions. I am sure that, if they want to speak to John another time, they can do so.

Thank you for your presentation, Professor Curtice. It was very interesting. At the beginning, it was quite clear that there was one member—who shall be nameless—who supported the first-past-the-post system, but now there seem to be two. You have left the committee with a problem.

Colin Campbell: Do not come again. [*Laughter.*]

The Convener: I hope it never goes to a vote,

because I will probably lose.

We will now have a five-minute break. I stress that it must be only five minutes, as there are people waiting outside. Thank you very much, Professor Curtice.

Professor Curtice: You are welcome.

11:33

Meeting suspended.

11:41

On resuming—

Rating Revaluation

The Convener: We shall now start the second item on our agenda, which is the continuation of our inquiry into rating revaluation.

Our witnesses are representatives of the Scottish Retail Consortium—Patrick Browne, Mike Flecknoe and Brian Smillie. They will give us a presentation and the committee will then ask questions.

Patrick Browne (Scottish Retail Consortium): Thank you, convener. I shall introduce my colleagues. Mike Flecknoe is the rating executive with Boots, which is one of our members and operates approximately 130 stores in a range of locations throughout Scotland. Brian Smillie is the national president of the British Hardware Federation and managing director of James Gray and Son, which is based in George Street in Edinburgh.

I want to start by thanking the committee for giving the consortium the opportunity to address members this morning. I shall say a little about the Scottish Retail Consortium. We were established in April of this year. We represent most of the major high-street retailers and supermarkets, but we also represent a number of trade associations that, in turn, represent smaller and medium-sized retailers. Among our corporate members are: Safeway, which operates 200 outlets in Scotland; Dixons, which operates more than 90 outlets; Tesco, which operates 85 stores; B&Q, which operates 31 stores; and Argos, which operates 34 stores.

Our trade association members also include organisations such as the Scottish Grocers Federation which, through its 700 members, represents 2,500 food retail outlets in Scotland, and the British Hardware Federation, which has just over 300 members in Scotland. Other association members include the National Federation of Retail Newsagents, which has 2,200 members in Scotland, and the Booksellers Association of Great Britain and Ireland, which has

274 members. You can see that our organisation has a diverse membership.

Retailing employs 216,000 people in 25,000 outlets across Scotland. The figures for 1996 show retail turnover at £15.5 billion, so it is a major sector in the Scottish economy.

I turn now to the submission that we made to this committee two weeks ago. We drew attention to the weightings survey that we recently carried out. It showed that business rates, as a cost, represent on average 1.5 per cent of the turnover of a retail business, or 17 per cent of a retailer's operational profits. We also draw the committee's attention to a recent survey, conducted among its membership by the British Hardware Federation in 1997, which found that rates represented 10.1 per cent of the operational turnover of a typical hardware business and 22.5 per cent of the business's operational profits.

The figures suggest that rates are a more significant cost to a small to medium retailer than they are to other types of business. For the information of the committee, I mention that the average rateable value of premises covered by the BHF survey was £18,600, the average rates bill payable being £8,000.

11:45

Rates are one of the major fixed costs of all retail businesses, whether small or large. In our written submission, we supported a system of transitional relief to protect retailers from the large one-off increases in their rates bills. The consortium asked for that system of relief to be modelled on the regime that was used at the last revaluation of non-domestic property in 1995.

I stress that we are not advocating the status quo. Having considered the options for transitional relief that are available and can be implemented prior to next April's revaluation, we have reached the conclusion that the model that was used in 1995 would be fairest to all businesses. The current rating system is not perfect and neither is the system of transitional relief, but we feel that it is well understood by the business community, having been used before, and is perceived to be fair as it limits across the board the percentage increases that businesses will face in their rates bills as a result of the revaluation. The 1995 scheme also gave proportionately more benefit to smaller properties by capping their rates increases at a low level.

One of the central elements of the transitional relief scheme that was used in 1995 was that it was largely self-financing, which meant that the relief to businesses that lost out under the revaluation was paid for by limiting the benefits that other businesses got from the revaluation

process.

As the committee has heard from the Scottish Executive, there is likely to be an increase of 13 per cent in the total rateable value of non-domestic property as a result of next year's revaluation. The consortium believes that retailers will be among the businesses that will lose most as a result of the revaluation process and that therefore they will be in most need of the protection that will be offered by a system of transitional relief.

Mike Flecknoe will now give the committee an insight into the operation of Boots in Scotland and what rates mean to its business.

Mike Flecknoe (Scottish Retail Consortium): I will express only the view of Boots.

Boots is a supporter of high streets and town centres and wants small businesses to thrive as they add to the vitality of those centres, which benefits all. We support small businesses seeking help from the Government but we do not think that that help is best delivered through the use of non-domestic rates.

There are three main variables to be considered when looking at the liability of business rates: the rateable value; the uniform business rate; and any transitional relief that might apply. The rateable value is the benchmark by which we compare different types of property in different locations. The uniform business rate and the transitional relief are largely the same for all types of property so it is the rateable value that drives the differences in liability. The problem with the rateable value is that it is the equivalent of an annual rent. That means that what drives the rateable value is not the size of a business but the rent that it pays. It is a property occupation tax, not a business tax.

The Federation of Small Businesses has called for discounts for properties with low rateable values. On the face of it, a low rateable value would seem to indicate a small business, but that is not the case. Car parking spaces attached to large shops and automated telling machines that banks operate are separately assessed and are regarded as separate properties but they are not small businesses. Under the FSB's proposals, almost 10 per cent of the properties that Boots owns would qualify for relief, but Boots is not a small business. The FSB claims that 36.5 per cent of businesses have a rateable value of less than £5,000 but the actual fact is that 36.5 per cent of properties have a rateable value of less than £5,000.

We agree that business rates could well form a larger percentage of costs for small businesses than they do for large businesses, but we feel that a more meaningful measure would be to consider the rates liability as a percentage of net profit.

We run our stores as separate businesses across the country. We have tried to do a study to find out what percentage of profits is taken up by rates. The assumption is that there is a correlation between rateable value and the percentage of profits that rates take up. Our study showed that there is no such correlation.

The main problem is in using rateable values to identify small businesses. We think that other forms of taxation, based on income or profitability, provide a more reliable measure in identifying very small businesses. That would also ensure that any moneys that were available to the small business sector would be shared across that sector only, and not with stores such as ours.

Patrick Browne: The cost structure for retailing business is different from that of other types of business. On balance, retailing premises tend to be more heavily rated than other types of property, such as office property. Retailers also have to meet higher property, marketing and staffing costs than other types of business. They have additional costs, such as store security, which are unique to retailing.

Retailers also have to be located near their customers. Unlike other business, they do not have the option to operate in a non-high-street or non-town-centre location. They tend to incur higher rates bills by the nature of their business.

I will now ask Brian Smillie to give members a perspective on the significance of rates to small to medium retailers.

Brian Smillie (Scottish Retail Consortium): Good morning everyone. As Patrick Browne has said, I am president of the British Hardware Federation, and I would like to take a moment to explain the nature of our organisation. The British Hardware Federation does not relate to computer hardware, but to traditional hardware—ironmongery and housewares. Most of the members of the federation run small businesses. One of the benefits of being president is the opportunity to go round the country, speaking to members in their localities, chewing the fat about the business.

It will come as no surprise that rates can be an emotive issue for most small businesses. There is a degree of apprehension about the new rating process. Nobody likes to pay tax and we accept that there will always be some dissent. However, the new system has aroused genuine feelings of apprehension because of the perceived uncertainty surrounding parts of it. There is no doubt that one factor that is important to the people whom I represent—and to most other retailers—is transitional relief. That has been one way of removing the uncertain, large additional costs. It has helped to smooth out the process.

There is a full accord on transitional relief.

I would like to reinforce Patrick Browne's comments. Most retailing companies face an increasing rates burden. In general, rates go up. The figures on increases are smoothed out across all the different categories of buildings, but for retailers the tax burden is an increasing one. I would argue that rates tend to make up a larger percentage of business cost for retailers, because of the nature of their location, than they do for other types of business. Retail businesses need to be in a visible spot and, therefore, their property will be perceived to have a higher value than a warehouse or factory in a less visible location.

There is already a classification within the system to allow transitional relief for large and small businesses. However, it is sometimes difficult to classify businesses on the basis of their property.

My company considers itself to be a small business. I know that it is invidious to discuss one example, but it might give members a flavour of the situation. I am not making a complaint; I am trying to give members an indication of the increases in the rates bill for my company in Edinburgh. Although the property value has gone up, following the last revaluation—we are now facing another one—I am referring to the increase in the amount that we have paid.

Since 1994-95, the rates bill has increased by 49 per cent. The five successive increases have been: 10 per cent, 11.5 per cent, 12.12 per cent, 4.7 per cent and 4 per cent. That makes a total increase of 49 per cent. That has been an increasing burden on our business.

I recognise that property in George Street in Edinburgh has increased in value, but we never realise the property value of our businesses until we come out of business. The tax is therefore arrived at in an arbitrary way, although we recognise that there must be some basis for it. Most retailing companies face an increasing burden. There are no swings and roundabouts. Most companies see it as a cost that always goes up.

We are concerned by the suggestion that there would be some cross-subsidy between smaller businesses and larger businesses. We need to go back to how one classifies small and large. If we are to change from a system that is based on the value of a property and apply an overriding percentage to businesses that are perceived as large to subsidise businesses that are perceived as small, we will be breaking away from the fundamentals of the current system. We can all argue about the rights and wrongs of using property as the basis of the tax, but, if it is the basis, it should continue to be the basis, rather

than being tinkered with by cross-subsidy. We need to know where to draw the line.

As Patrick Browne said in his introduction, the rateable values of many of our members, who are not large businesses, tend to be above the £10,000 threshold. They see themselves as small, suburban, high-street town people and would not be happy if they felt that they were subsidising another sector of business sizes. That would be divisive.

Patrick Browne: We are aware that a great deal of the committee's attention has so far focused on the proposals for a system of rates relief for small businesses. We have had sight of the submission that the Federation of Small Businesses made to Jack McConnell, and I shall briefly give the Scottish Retail Consortium's view on that, which has been hinted at in Mike and Brian's comments.

The FSB's plan is not a model for a system of transitional relief; it is a model for a system of small business rates relief, as the FSB itself has indicated in the submission. Even if the FSB's proposal were implemented, it would still leave a large number of businesses—particularly retailers—facing significant increases in their rates bills, with severe implications for profitability and operation because of the lack of a transitional relief scheme.

We are concerned that, under the scheme proposed by the FSB, businesses with a rateable value of more than £7,500 could also face an extra 3.5 per cent surcharge in their rates bills to pay for the FSB's scheme. Those factors could lead to many businesses losing twice as a result of the revaluation process.

The Scottish Retail Consortium wants the Scottish Parliament to implement a system of transitional relief to protect businesses from the impact of the revaluation process. The model that we favour is the regime used in the 1995 revaluation. The system of transitional relief is essential to the business community to give it an opportunity to phase in over a period of time the increases in rates bills resulting from April's revaluation.

If the committee is minded to consider offering additional support to smaller businesses, the consortium would ask that that support be funded centrally by the Scottish Executive and that the cost not simply be passed on to other businesses, many of which already experience a difficult trading environment.

If members of the committee have any questions, we will do our best to answer them.

The Convener: Thank you for that presentation. I am sure that there will be questions.

Donald Gorrie: Most of us see the point of transitional relief, but the fact that we hope that the new lot of transitional relief will come on top of continuing transitional relief from last time suggests that it is not a great system. It seems to go on too long.

You expressed enthusiasm for finding ways of helping smaller businesses. If you were sitting where we are sitting, what would you vote for as a way of helping small businesses without disadvantaging middle-sized businesses, if that is the right expression for companies such as Grays?

Patrick Browne: The Scottish Retail Consortium has not given a great deal of thought to what scheme could be used to help smaller businesses. My colleagues may be able to indicate what Boots and the British Hardware Federation think about it, but the consortium does not have a collective view.

Mike Flecknoe: I deal with business rates and would not pretend to be an expert on other forms of taxation. The point that we are trying to make is that there is no correlation between low rateable values and small business. Property is not a good tool for identifying small businesses. The rateable value is the equivalent of an annual rent, based on the value of the property. In our opinion, income and profitability are far better indicators. With corporation tax, for instance, we pay one bill a year. With business rates, we pay thousands of bills a year, which means that it is very difficult for the billing authorities to identify whether Boots is a big business. We would prefer any form of taxation that was based on profitability or income.

12:00

Brian Smillie: I tend to support that. I appreciate the difficulty that you have, but rates should relate to economic activity rather than to the value of the property, which is the fairly arbitrary basis for the present system.

Mr Gibson: We all accept that the current system has a number of flaws, but I am concerned about how the system that you are proposing would work. If rates liability were calculated as a percentage of net profit, how would that accommodate the vagaries of the economic cycle? We have had two major recessions in the past 20 years, which impacted substantially on the profitability of companies. Given that the rates fund a large proportion of local government services, would your proposals not cause considerable annual fluctuations in the amount of money that is available to fund services? That could have a destructive effect on local government across Scotland.

Mike Flecknoe: I do not disagree. However, the

problem with the rating system is that it operates on a five-year revaluation cycle, with transitional relief. Usually, properties experience an escalating increase over the first few years, which then drops to something close to the retail prices index. Rates follow the property cycle, which is not the same as the economic cycle. The current rateable value is based on what a property would have achieved in the marketplace in 1993. Next year's rateable value will be equivalent to what the property would have achieved in April 1998. The property cycle was in the doldrums in 1993 and at a peak in 1998, which is why we are experiencing such large increases. The problem is that there are discrepancies between the economic cycle, local authority spending and business rates.

Mr Gibson: Patrick talked about funding transitional relief from the Scottish consolidated fund. Have you worked out how much that would cost and where the money would come from, or do you envisage the scheme's being self-financing? If so, how?

Patrick Browne: We would prefer the scheme not to be fully self-funded, as that would increase the burden on the businesses it covers. Rating is a complex subject, and because the Scottish Executive has not indicated what the rate poundage is likely to be we cannot work out what sum of money is involved. At this stage, therefore, the answer to your question is that we do not really know.

As I understand it, under the scheme that operated in 1995, businesses provided funding for other businesses that had lost out as a result of the revaluation. That is not an ideal system, but it is the one that we would prefer. We would welcome any assistance from the Scottish Executive, and there are indications that in England there will be an element of funding from the Treasury. However, until we know what the rate poundage figure will be, it is very difficult to estimate how much money would be required.

Mr Gibson: As Michael told the Confederation of British Industry, the difficulty that we have is in deciding which budget to take the money from if the scheme is not self-financing. Because our budgets are hard pressed, that is a major concern for everyone.

Patrick Browne: We have indicated our support for transitional relief, but I want to reiterate our concern about the proposals of the Federation of Small Businesses, which would create an additional problem. If you were to fund its scheme centrally, it would cost at least £45 million.

Mr Gibson: Only if it were not self-financing.

Patrick Browne: If you chose to pass the cost on to businesses, they would be faced with an additional tab to that amount. Either way, the

scheme would create losers.

Mr McMahon: I want to focus on one issue that may involve you as landlords. Can you tell me why large organisations that generate rents through competition should be subsidised through transitional arrangements? How many of your organisations have property portfolios in which transitional relief is granted to tenants by the landlords who receive it?

Mike Flecknoe: Strictly speaking, landlords do not pay business rates, unless the property is vacant, in which case they are classed as the occupier. The vast majority of our members do not own property, but rent it. They are the occupiers and so are liable for business rates. The question of landlords passing on transitional relief does not arise, therefore, because if the property is vacant it is they who benefit from transitional relief; if not, the occupants benefit.

Patrick Browne: The only SRC member that I am aware of that owns a significant amount of property is Marks and Spencer, which has 22 stores in Scotland. My understanding is that the company is trying to divest itself of that property interest. The Gyle centre, for example, has been put up for sale, which gives a clear indication that the company sees little benefit in owning property.

Mr McMahon: As Kenny Gibson said, last week we questioned the Federation of Small Businesses. In response to one of my questions, the federation said that it would prefer tax increases to money being taken out of the block grant. You have dismissed some of the federation's arguments. Do you dismiss that one too?

Patrick Browne: It is difficult for me to comment, as we have major concerns about the FSB's proposals. It would not be appropriate for me to say how we think that something with which we disagree should be funded. We want to indicate that we have concerns about the implications of the scheme.

Mr Paterson: I welcome the candid approach that the consortium has adopted today towards the mix of properties and the impact on small businesses, given that most of your members are big businesses. Have you had the opportunity to examine the paper produced by the Forum of Private Business?

Patrick Browne: I have not.

Mr Paterson: That is okay. I will not ask about the paper and I will rephrase my question. Would you be interested in a system that genuinely considered the impact of business rates on the profit ratio of small businesses? Would you support a scheme that supported small businesses if such a scheme could be devised? In

some cases business rates can impact on 27 to 30 per cent of a small business's perceivable profit.

Patrick Browne: As I said before, the consortium does not have a collective view on the issue of rates relief for smaller businesses because of the balance of our membership. We do not support a business rates relief package for small businesses any more than we do a relief package for larger businesses. However, Mike Flecknoe can perhaps give a view on behalf of Boots. Brian Smillie can give the British Hardware Federation's view.

Mike Flecknoe: The difficulty lies in considering non-domestic rates only as they apply to small businesses. The variables cannot be considered without considering other variables outside the remit of property tax. I do not see how a scheme could be devised, but if one was, we would consider it.

Mr Paterson: Would you support it or just consider it?

The Convener: He said that he would consider it.

Brian Smillie: I must make it clear that I am now speaking on behalf of the British Hardware Federation, not the SRC, although the federation subscribes to the SRC's view. It would be useful if a system could be devised that is not divisive or discriminatory. It has been acknowledged that smaller businesses share a disproportionately large burden. Our membership reflects that. Rates are a higher proportion of their costs than for larger businesses. The problem is what model to use—it is not easy.

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP): Last week, we heard evidence from Bill Howat of the Scottish Executive development department. He said that, at the rates revaluation in 1995, the average increase in rateable value was 33 per cent, whereas the likely average increase in rateable value in 2000 would be 13 per cent. Also at last week's meeting, Mr Duncan Chisholm, the president of the Scottish Assessors Association, said that rateable value would increase by between 10 and 15 per cent.

Five years ago the average increase was a huge hike—one third—whereas this time round the average increase will be much less, although there will undoubtedly be some big losers because of large increases in individual cases. Does that mean that, although there may be a case for a transitional relief scheme, it would be a different beast from the scheme of five years ago? The problem of appeals for transitional relief—some of which is unused from 1995—is far less likely to recur five years on. The whole transitional relief scheme could this time be described as only one third as important as it was last time.

Patrick Browne: The key word from what the Scottish Executive has said is "average". A 13 per cent increase in the total rateable base would imply a 13 per cent change, on average, in property. Retailers tend to operate from more heavily rated premises. Some of them operate at out-of-town locations, and the indication is that, this time round, those will be significantly impacted by the revaluation process. Mr Ewing's points were valid on the whole, but there are extremes within the process which must be recognised by a system of transitional relief, which is what we are advocating.

If a system of transitional relief was implemented and the average change was 13 per cent, many people would not be affected by it. Among our members, however, some will benefit from and receive protection from such a scheme because it operates at the extremes.

Mike Flecknoe: I understand that the rateable value increase in 1995 was dramatic. The problem is that a shift in rateable value does not necessarily lead to the same shift in actual rate payments. Prior to 1995, there was a local rate in the pound, which each local authority could apply. After 1995, the uniform business rate was applied, which levelled out the playing field. A shift in liability occurred throughout Scotland. Transitional relief was introduced in 1995 to smooth out the effect.

Patrick Browne was talking about the 13 per cent increase in rateable value this time round. We have done research on Boots. We estimate that the average rates increase for our property portfolio would be 29 per cent. Boots stores are in high-value locations around the country, but the out-of-town warehouses and superstores will experience far higher increases even than that.

I agree that transition feeding on transition is wrong and is a fundamental flaw in the system. Liability should not be paid on the previous year's liability, which is how transition is calculated. Boots would advocate an escalating limit on transition in order to feed transition in the five years before the next revaluation.

Fergus Ewing: I will put a simple scenario to you. A certain supermarket has a 25 to 30 per cent hike in rateable value at an out-of-town location. Is it not likely that that large supermarket has been taking customers away from tertiary or secondary locations where people used to do their shopping? That is the general pattern. If supermarkets are the losers this time round and face larger than average increases in rateable values—and I suspect that that will be the case—should the transitional relief system require those whose rateable values go down to subsidise our large, household-name supermarkets? We would end up with a transitional scheme in which the corner

shop would subsidise the large supermarket.

12:15

Patrick Browne: We must be careful which issues we consider. The committee is conducting an investigation into rating issues. The consortium's view is that we favour a balance in shopping provision between locations, including town centres, edge-of-town and out-of-town developments. We do not favour one of those locations at the expense of the others.

The impact of out-of-town developments on other types of retailer might be better addressed through the planning system. The Scottish Executive is examining that. We do not subscribe to the argument that a business should pay more and not be protected from large changes in its rates bill because it chooses to operate from an out-of-town location.

When somebody sets up a shop in, for example, Princes Street, that shop displaces trade from other businesses. Displacement is a normal part of the retail process and we believe that it should be addressed by the planning system, not the rating system.

Fergus Ewing: We heard from the Federation of Small Businesses that its members pay 10 times as much in business rates, as a proportion of profit, as do plc's. The Forum of Private Business informed us that business rates take up 25 per cent of gross profit for its members and 5 per cent for the plc's. Those organisations consulted their members and provided evidence. You say that you do not have a view because of the disparate nature of your membership, which ranges from a newsagent to Safeway and Tesco. Do you have any information on the proportion of your members' profits that is taken by business rates?

Patrick Browne: The consortium carried out a survey of all its members. I think that the results are in the submission that we made last week; they indicated that business rates, as a cost, represent on average 1.5 per cent of a retail business's turnover or 17 per cent of a retailer's operational profits.

Mr Ewing is interested in the small or medium retailer. The figure that he is looking for may be in the British Hardware Federation's 1997 survey of its members, which showed that rates represented 10.1 per cent of a hardware business's operational turnover and 22.5 per cent of its operational profits. We do not dispute the figures that were produced by the Department of the Environment, Transport and the Regions. We question how the imbalance should be addressed and whether the rating system is the best way of doing that.

Colin Campbell: I will revert briefly to Mike Flecknoe's suggestion of a profitability tax. I have a quick anecdote about the days when there were university grants. A friend of mine wondered why his son got nothing at all, whereas somebody whose father owned a retail business got the full grant. When my friend contacted the Scottish education department, the person at the other end of the phone was astonished at how many people in small businesses—with the help of good accountants—made no yearly profit whatever. As a result, their children received the full grant while my teacher friend paid the full whack.

I view profitability with marginal suspicion, perhaps because I am not a businessman. However, after Kenny Gibson's question about the inconsistencies in profitability from year to year, it occurred to me that a straight turnover tax might be a fairer solution to the problem and deliver a more consistent output than a profitability tax. That would also take care of the people whose businesses never make any profit.

Mike Flecknoe: I am not a tax expert.

Colin Campbell: Nor am I.

Mike Flecknoe: I am trying to come up with suggestions instead of saying that this or that proposal is a bad idea. The committee would need to bring in taxation experts to answer that question.

The problem with business rates is how we associate small businesses with rateable value; it is as simple as that. As for alternatives, I do not know. Although I have some sympathy with what you say, that is not the official view of Boots. The committee would have to talk to experts from Boots on performance taxation.

Johann Lamont: I was detained and missed the beginning of the meeting, so I must declare an interest now. As I am a Labour and Co-operative party MSP, I am linked to the broader Co-operative movement, which has a retail aspect in the form of community businesses. As those businesses and retail outlets are philosophically rooted in the local community, they are smaller than the competition.

Although Colin Campbell's point about the difficulty of identifying profit is perhaps the strongest argument against a straight local income tax, there are other issues to address. You seem to suggest that the label of small business obscures more than it reveals, which is perhaps different from what we heard in other presentations. Furthermore, you seem to suggest that a special case could be made for the retail sector. How could the rating system acknowledge the sort of add-ons that you talked about? Would transitional relief be a part of that special case?

Patrick Browne: Thank you for that question. No one is asking for the retail sector to be treated as a special case. We support transitional relief, which would benefit businesses across the board. We were trying to demonstrate that, by its very nature, retailing might not conform to some of the definitions that the committee has heard so far. As retailers tend to operate in more heavily rated premises, the rateable value is higher. Brian Smillie indicated that although some of his members in the British Hardware Federation might not be classed as small businesses, they are modest enterprises that are struggling in comparison with other small businesses. We were trying to illustrate that perhaps we should be more sophisticated in our approach, instead of defining a small business as a property with a rateable value of less than £7,500, then targeting assistance at businesses below that threshold.

Mike Flecknoe: I agree—£7,500 is not a lot of money. Almost 10 per cent of our portfolio would qualify. For example, Boots is not a small business. There is not necessarily a correlation between small business and rateable value.

The Convener: I call Bristow. After his question, we must draw to a close as we are running out of time.

Bristow Muldoon: Like Johann, I should declare an interest. I am also a member of the Co-operative party, albeit not with a constituency agreement.

When Bill Howat from the Scottish Executive attended the committee, he indicated that the Executive's view was that it wanted to give business the stability of getting through the current rating revaluation exercise with a degree of confidence and without any great shocks to business systems. However, he also indicated—albeit without the same suggestion that this was the Executive's view—that there may be a window of opportunity once the exercise is completed to undertake a revaluation of the whole system.

Would it be fair to say that you favour gaining stability from the completion of the rating revaluation exercise, with possibly a longer-term revaluation, using the window of opportunity that will come in a year or two?

Patrick Browne: That is a fair assessment of our position. We have only five months before next April's revaluation. Therefore, given shortage of time, statutory instruments and so on, it is important that we resolve the uncertainty as quickly as possible.

Other parts of the UK are indicating that they will review the rating system after next year's revaluation, in time for the revaluation that will be due five years after that. As we said, we do not think that the rating system is perfect—there are

ways in which it could be improved. We would be more than happy to be involved in the process of reviewing the system.

The Convener: Thank you for coming to the meeting. I am sorry that you had to wait and I apologise for the accommodation—this is not the best meeting room. Your evidence was comprehensive and you stuck to your remit. We will be in touch with you again to clarify points, if necessary, or if we wish to invite you back.

What time do we have this room until, Eugene?

Eugene Windsor (Committee Clerk): We have it until 1 o'clock, officially, but the meeting could run on, as there are no committee meetings this afternoon.

The Convener: There is a meeting at 12.30 pm, which some members might want to attend.

Eugene Windsor: Right.

The Convener: I want to cover some housekeeping matters. The meeting is running over time. We have the room until 1 o'clock, but we can go on after that. I think that we probably should, but I am in the hands of committee members. I am happy if you all suddenly decide that you need lunch.

Mr Gibson: Will we turn into pumpkins if we go past 1 o'clock?

Colin Campbell: That would be something to look forward to—the official reporters should not report that comment.

The Convener: Are members happy for us to carry on? It is likely to be well after 1 o'clock before we finish.

Members indicated agreement.

The Convener: It would be helpful if members would simply ask questions, rather than giving a story before they asked a question.

Mr Gibson: Why did you look at Fergus when you said that?

The Convener: I was not looking at Fergus. I was looking around the table. I have new glasses.

Welcome to the committee, Mr Dowds. I know that you were here earlier, so you will know that the format is a presentation followed by questions.

Gerry Dowds (Forum of Private Business): I am accompanied by Nick Goulding, who is our UK head of policy, and who has come up from England to be here today.

The Forum of Private Business Scotland represents 2,200 small and medium enterprises in Scotland. Eighty-five per cent of those employ fewer than 15 people, and the average turnover is £450,000 per annum. We will be delighted to

answer any questions on the forum or on the relief scheme.

12:30

We have two objectives today. We want to present the case for transitional rates relief in the April 2000 revaluation. We also want to present the case for a suitable small business rates relief scheme to reduce the overall burden on SMEs. Those issues are separate in terms of their impacts on SMEs. At the end of the presentation we would like to propose priorities in those separate issues.

On the impact of business rates on SMEs, our data show that business rates are the second biggest overhead after payroll. That is not the case for public limited companies. I noticed that the committee endeavoured to find out what percentage of profits—or turnover or costs—rates represent for plcs.

Our data show that SMEs pay 25 per cent of their gross profits on rates, compared to 5 per cent for plcs. The Department of the Environment, Transport and the Regions statistics, to which Patrick Browne of the Scottish Retail Consortium referred, say virtually the same as that.

Rates have an impact on the attitudes of our members. In our quarterly surveys, business rates have been the No 1 concern, out of 26 choices, since the fourth quarter of 1997. Since we started conducting quarterly surveys in 1977, business rates have never been out of the top three concerns. It is a perennial problem rather than one that has suddenly been manifested. In April, we conducted a survey of our members' priorities for the Scottish Parliament. In breadth and depth, rates were No 1 and outweighed other issues by a factor of three.

There is no doubt that there is an issue to be addressed. That is why we are grateful to the committee for the opportunity to present our case.

I will give the case for revaluation relief. It is clear from the consultation document, which you will now have seen, although you had not last Wednesday, that the Scottish Executive recommends a scheme for transitional relief similar to those in 1990 and 1995.

There will be immediate large increases in what is the second biggest overhead. Fergus Ewing talked about average increases. The rateable value will increase by 13 per cent. We know that the uniform business rate poundage will come down to reflect that increase, so that the average increase will be at, or just below, the rate of inflation. However, the example of the average masks the fact that many extreme cases of increases and decreases will result from the

revaluation. That is true for properties of all types, in all regions of Scotland.

The principle of revaluation relief is well established and appreciated by the business community. Last week, one witness, the Federation of Small Businesses, said that the business community does not value it, but we disagree. The business community applauded the revaluation relief, in 1990 and 1995, in both England and Scotland.

There is a final point to be made in the case for revaluation relief. The federation's paper points out that a merging of revaluation relief and small business relief has been sought. That does not address the problem, for two fundamental reasons.

A business with a rateable value of £3,000—which, after April 2000, rises to £9,000—would not apply for small business relief funding under the federation's scheme. Worse, it would experience a hike in its rates and, if the Scottish Government did not fund its scheme, it would be expected to pay even more to subsidise businesses that had received a reduction because they fell below the £7,500 rateable value threshold.

What of a business with a rateable value of £4,000, which experienced a reduction in rateable value? Not only would it experience a reduction in its rates bill as a result of the revaluation next year, but the federation scheme would allow it a further 50 per cent off that new bill. For those two reasons, such a scheme would not be fair to the rest of the small or medium business community.

I turn to the case for a small firms relief scheme. On average, small or medium firms are paying five times more, as a percentage of their profits, on rates. We also know that smaller firms pay much higher rates than larger firms per square foot. That is a more complex argument that concerns the zoning principle and other technical aspects, such as the way in which the Scottish assessors value properties. The front of a property may be deemed to be of a higher value than the property at the back of the store. A newsagent's may have a depth of 50 feet. The vast bulk of that property might be valued at a far higher rate than the back end of Marks and Spencer, which would attract a much lower assessment from the Scottish assessors. On the basis of size, there are technical reasons why the cost of occupancy is higher for smaller firms than for larger ones.

If occupancy presents a higher cost, which it does, any tax that is based on rental value is bound to bear disproportionately on the smaller business sector. Small businesses, not unsurprisingly, favour a small business relief scheme. In a poll that was conducted in April 1998, 91 per cent of our members favoured a

small business relief scheme that would be paid for by larger firms. That is no surprise, given the constituency that we represent.

We think that there are principles that the committee should consider before it considers solutions. We believe that they are worthwhile principles, against which any scheme should be judged. The chap from Boots, to whom Nick and I were listening this morning, made some fundamental commonsense points. That was refreshing. Some of those are reflected on this slide. First, relief should be targeted on the size of business, taking account of the close relationship between the impact of rates and the size of a business. We know that smaller businesses pick up a bigger tab in proportion to their profits.

Secondly, size should be measured on current information. Rateable value is dated. A relief scheme should reflect the current business circumstances, if that is possible. Thirdly, relief should be aimed at businesses, not premises. That point was made strongly by the SRC, and I thought that that Boots chap hit it absolutely bang on the head. If we aim relief at premises, it will be given to bigger businesses as well as to smaller ones. That is not discretionary.

Fourthly, thresholds should be avoided, for two reasons. The first is that they tend to limit growth aspirations. They might not have a major impact on the growth of businesses, but they may delay or defer it, or encourage businesses to work around them. The second is that thresholds are notorious for causing unfair competition around the margin: "How do I get my business below this threshold to reduce my second biggest overhead by 50 per cent?" As we have already said, in our view, they would lead to a large increase in appeals for chartered surveyors.

Simplicity is important, so the system must be simple for businesses and local authorities to apply and administer. We would want disruption to the current system to be minimised. A relief scheme should not be funded by the taxpayer but by shifting the burden, because there is a disproportionate cost burden on small businesses compared with large ones.

We felt that it would help committee members if we passed on our members' views of relief schemes. We conducted a survey in May 1998 and asked our members, "What preference do you have, in terms of the measurement of smallness, if a small business relief scheme is in the offing?" The first preference was for a scheme based on last year's profit, which 36 per cent voted for, followed by current employment at 28 per cent. Last year's turnover was the next most popular option. Notice that only 11 per cent supported a scheme based on rateable value: 89 per cent of our membership, which is representative of the

SME community, do not favour a relief scheme based on rateable value.

The Forum of Private Business would be happy with a scheme based on profit or employment but, for technical reasons, national insurance is a good proxy for either of those. We would be glad to expand on that during questioning. There are difficulties with profit and with turnover. You only have to look at the different sectoral turnovers to see that a scheme based on turnovers would be difficult to implement. As we shall suggest in a moment, a scheme based on national insurance is the way forward. A relief scheme based on rateable value would be as bad as the poll tax in terms of its application to smaller businesses.

There are some advantages with our preferred option of an NI-based scheme. We know that the necessary figures are already available. Indeed, they are used for statutory sick pay. An FPB amendment in the House of Lords three years ago encouraged the Government to introduce a reimbursement scheme for statutory sick pay for small businesses, so there is a precedent for schemes based on national insurance. An NI-based scheme would be much more up to date than rateable value, and it would measure the size and the resources of a business in terms of the number of employees and the salary levels that are being paid.

The scheme would provide tapered relief, which would not encourage distortions in business decision making. In our suggestion for a taper you will see that we have tried to present a case for a taper that is sufficiently flat that at any point along the curve the decision-making process of a business is not influenced significantly by a single factor such as a relief scheme on business rates. The scheme would be delivered through the current pay-as-you-earn system, which would avoid any changes for local authorities, and it would not be subject to complications caused by changes in the rateable value following an appeal, which can bring firms below a threshold.

How would the system operate? We suggest that to maintain a flat taper the system should not just use national insurance, but should have a dual taper based on property and on national insurance. We will provide an example of such a scheme in a moment. The relief would be claimed monthly as a simple deduction from the business's taxation and national insurance liability. It would be fully administered through PAYE; in other words, businesses would operate the scheme for themselves. There would be a need for a supplementary table for those businesses that operate a manual system. Of course, we do not want to get ourselves into a repayment exercise so there would be a need for a ceiling on relief set at the gross tax and national insurance that would

be due in the period of any claim to prevent any reimbursement.

In the following table we have given an indication—and I stress that it is an indication—of the percentage reduction of rate liability. Across the top of the table we have the gross annual rate liability on all premises occupied by the business going up in £5,000 bands, but different bands could be chosen. Down the left of the table we have gross monthly—not annual—employers' class 1 national insurance liability, as well as class 2 and 3 NI contributions. That shows that the relief would be spread much further than just a £5,000 rateable value, both in terms of national insurance contributions and rateable value.

12:45

The next slide shows what that means to the average business in terms of pound notes. The figures show the indicative monthly rebate figure as a result of applying that dual taper. The figures are purely for illustrative purposes. Ensuring that the right scheme had the right balance would involve much more analysis.

At this meeting, we wanted to argue the case for a transitional relief scheme and for a separate small business relief scheme. We think that those schemes are necessary for the Scottish economy. The priority for the committee should be the transitional relief scheme to take account of the revaluation exercise next year. We will submit our views on that before the deadline.

We encourage the committee not to make a decision on any small business relief scheme until further investigation has taken place. We believe that if the principle is right, we should not rush the solution but should take our time to get it absolutely right. It is better to get the right solution than a quick fix.

Dr Jackson: I would like to ensure that I have understood what you have said. Are we talking about transitional relief operating in a similar way to the way it did before but being more supportive to small businesses? Are we considering, as a longer-term solution, examining the way that we determine business rates? I am a little confused about the taper principle, due to my inexperience in this area. Does it apply only to the long-term solution or might it be relevant to the transitional relief proposal?

Gerry Dowds: Nick Goulding is the real expert, and I am glad he is here.

We believe that the priority is the revaluation exercise. We know that some businesses will face significant increases in their second-highest overhead. That has to be dealt with before next April. The small increase for the total property

base in Scotland hides the fact that some businesses, in areas where rateable values have risen significantly since 1995, will see much higher than average increases. It is to protect those businesses that those increases should be phased in during a five-year period. The transitional relief scheme was of enormous benefit during the past two revaluation exercises. A small business relief scheme would deal with the principal unfairness in the rating system, and the relationship between local authorities and the small business sector.

Dr Jackson: Is that where the taper is being suggested?

Gerry Dowds: That is where the tapered solution comes in.

Mr McMahon: I have another point of clarification. The Scottish Executive's statement last week suggested that the rate poundage is set in order to achieve the Executive's policy and that the income from ratepayers is due to remain broadly constant. Essentially, the increases in the rateable value will not necessarily lead to an equivalent increase in bills. You mentioned something about that earlier. Are you rejecting that statement or simply qualifying it?

Gerry Dowds: That will be the case overall. Let us say that only one business existed in Scotland, that business would experience a 13 per cent increase in its rateable value. However, at 48.9p, the poundage will come down by about 13 per cent, plus a little bit for inflation; therefore, the increase will be smaller. However, there are 250,000 businesses in Scotland, not one. There is a significant minority that will pay much higher increases than the average to which we referred. Some businesses will benefit from significant decreases. The Executive's paper suggests that the decreases should fund the increases, as happened under the two previous revaluation relief schemes.

Fergus Ewing: I was very impressed by the clarity of the presentation. The tables referred to national insurance classes 1, 2 and 3. What about class 4?

Nick Goulding (Forum of Private Business): There is an error. It should not say class 3—voluntary contributions; it should say classes 2 and 4. That is to differentiate between incorporated and unincorporated businesses. In an incorporated business, the directors are paying class 1 insurance, whereas the owners of an unincorporated business pay class 2 and class 4.

Fergus Ewing: I asked that because many people who pay class 4 insurance, including me, do so in the full knowledge that one gets nothing in exchange. There is pressure to abolish class 4 national insurance contributions. If that ever happened, I presume that your system would be

able to take it into account. Is your system self-financing?

Nick Goulding: It could be, but it does not have to be. As with any relief scheme, there are different ways of funding it. It could be funded through central funds, from other taxation; by raising the general poundage so that it is spread across business rates payers in general; or by broadening the base of business rates to incorporate premises that are not currently covered. We could also change the basis of the valuation process so that certain types of premises pay more—out-of-town superstores might be an example of that.

Fergus Ewing: You mentioned that the Federation of Small Businesses proposal would fail if one property's rateable value rose from £3,000 to £9,000. Is that likely, given that we have been told that the average increase will be 13 per cent? You are postulating a 300 per cent increase. If that is unlikely, perhaps you are being a wee bit hard on the FSB proposals.

Gerry Dowds: It is hard to predict what the increases for individual businesses will be. If we consider previous revaluations, we can see that it is a case of swings and roundabouts, because certain businesses, in more desirable areas, will attract a higher rateable value. It depends on what the market is prepared to pay. We are in a strong economy and we know that rental values have been increasing sharply over the last 18 months—as I know from my experience of trying to buy a house in Edinburgh, having returned from England. There has been a real shift. The federation's scheme fails on the principal criterion that we outlined earlier.

Donald Gorrie: I know that your matrix is just illustrative, but does gross annual rate liability mean the rateable value or what businesses would pay in rates?

Nick Goulding: It means what they would pay; that is, the valuation times the multiplier. That would not include any transitional relief, as the object is that by reducing the amount that small businesses pay, transitional relief would not be needed. There is less effect on businesses that are paying a high multiple increase on a much smaller figure.

Donald Gorrie: Pursuing Sylvia's point, would it be a good idea to have some sort of taper in the transitional relief? Your example was that somebody whose rate bill goes up from £3,000 to £6,000 should receive relief. Do you think that they should receive more relief than somebody whose rates go up from £30,000 to £60,000, or from £300,000 to £600,000?

Nick Goulding: Yes is the short answer. I would not like to pre-empt our Scottish response, but in

our English and Welsh response to the Department of Trade and Industry, we suggested that attention might be given to the top end of such a taper. We suggested that the large multiples should be excluded completely from transitional relief, for two reasons: first, because rates are such a small proportion of their overall turnover profitability; and secondly, because of the administrative swings and roundabouts involved. In other words, for businesses such as Tesco or Asda, with premises all round the country, rates are going up in some places and down in others. You are adding to the costs on local authorities with what is essentially a meaningless swap of funds between one Tesco store and another.

Donald Gorrie: You also mentioned in passing that there are other things that could be rated. Did I understand that properly? What are we not rating at the moment that we could rate?

Nick Goulding: Aspects of the central rating of certain types of property such as power grids, Ministry of Defence properties and other central government properties are not properly accounted for at the moment. Such properties are rated, but not on the same basis as a corner shop. We could broaden the base by changing the attention that is given to those classes of property.

Mr Gibson: I commend you on a very imaginative approach. It is obvious that you have given a great deal of thought to this; it covers both capital-intensive and labour-intensive businesses. However, although the graph is very clear about how relief would be delivered, it does not give the other side of the coin. We need to know how you propose to fund it. You indicated that there could be a general increase in the poundage or that there could be an increase in taxation, which is unlikely. Put it this way: I do not think that the relief will be funded from the Scottish consolidated fund. If you are suggesting that the poundage is increased or that the burden is shifted on to larger businesses, what work have you done to show how those sums will add up and square that circle?

As Gerry Dowds will tell you because he was here last week, the Confederation of British Industry was very dismissive of the possibility of using national insurance contributions. There is concern that we do not have control over the Inland Revenue and so on. The CBI indicated that it would be too complex to administer. How would you answer those points?

Nick Goulding: With regard to the costing of the scheme, we have had discussions with the Royal Institution of Chartered Surveyors and the Department of the Environment, Transport and the Regions. Although they are not whole-hearted supporters of it, they have given us no indication that our figures are incorrect; I am sure that they

would have told us if they were.

The overall cost of the scheme would be an approximate 3 per cent increase in the poundage on the current rating base. That figure is arrived at from tables based on the proportion of the total current estate that would be within the relief taper. That does not relate to the total number of properties, but relates to the total value of the properties, because although there might be large numbers of smaller properties, the total value of those might be relatively small compared with the total value of all properties.

13:00

Our figures suggest that the properties that would be covered in the relief table account for some 29 per cent of the total value of the current estate, but there is a skew in terms of where they sit in the relief table. Most small businesses sit in the top left-hand corner of the table—having low annual rates liability and low NI liability—because that is where most individual properties are, but further down toward zero per cent relief, there are fewer properties, but their value is greater. We believe therefore, that the average relief given to a property that falls within that relief matrix would be around 15 per cent, with relief at zero per cent at one end of the scale and 75 per cent at the other.

The cost of giving an average of 15 per cent relief to around one third of the total properties amounts to about 3 per cent of the total relief. That might seem slightly convoluted, but I hope that it was clear.

Mr Gibson: It was clear.

Nick Goulding: I now come to Mr Gibson's other question.

The committee will be aware that the Scotland Act 1998 paid much attention to the devolved power to vary income tax; the negative aspects of that have been stressed. The Scottish Executive is a customer of the Inland Revenue in the same way as other Government departments are, such as the Department of Social Security, which collects national insurance. What has been suggested in terms of business rates is a positive use of the powers that are delegated to the Scottish Parliament. The Parliament would be able to deliver something that was beneficial, rather than something that might be viewed by the business community as negative.

There is no likelihood that—for technical reasons—the Inland Revenue could not deliver. If one examines how small firms administer their PAYE schemes, and how they claim relief on such things as statutory sick pay and statutory maternity pay, it is clear that they would have to do no more than they do now to apply the table to themselves.

There is a separation between assessors and the Inland Revenue in Scotland, but in England and Wales the Inland Revenue controls valuation and is well used to the intricacies of business rates. The IR has all the data that it needs on NI, so it will not be asked to check or to administer anything that it does not already check or administer, and neither will businesses. There is little additional burden.

How the revenue swapping should take place should be discussed. The central Exchequer would lose money because the IR would be collecting less—which would need to be balanced. Scottish local authorities would end up with more because the poundage would be increased by 3 per cent. Central Government would claw that back from the grant to the Scottish Executive, which, in turn, would claw that back by reducing the grants to Scottish local authorities. Scottish local authorities would end up with the same amount of money as before, but more of it would have come from their own direct resources, such as the business rates that they had collected. Less of the money available to local authorities would come from grants from the Scottish Executive.

The Scottish Executive would end up with the same amount to spend on other areas. It would get less from central Government, but it would pay less to local authorities. Central Government would remain exactly as well off as it is now, because although it would collect less from NI receipts, it would pay out the same amount less to the Scottish Executive.

Mr Gibson: What would be the effect of your proposal on jobs, growth and investment? The CBI has tried to counter it, and the SRC is saying that it would have an adverse affect on business, and thereby on jobs, growth and investment. How would your proposal benefit and stimulate the Scottish economy?

Gerry Dowds: If, when applying relief, you accept the principle that size, rather than premises, is important, any scheme has its advantages and disadvantages. We are not saying that our scheme is perfect, but—if size and the impact on businesses are the more important criteria—we believe that it is the best available. In its application, there is an attempt to ensure that there is no restriction on jobs or growth. That is why we have suggested a dual taper. If we present a graph with rates paid and national insurance taken together, as we have chosen to do, the graph can be flattened out by varying those two factors as much as one wants, and one can create a flat taper. That means that a decision made by a business at any time would not be influenced by a particular relief scheme. We do not believe that decisions on jobs or on any kind of growth would be affected directly.

Nick Goulding: More than that, our proposal would positively encourage job growth, because the overall burden of taxation on small businesses would fall. We know that small businesses create more jobs and are more labour intensive, so growth among small firms creates more jobs.

There is a correlation with national insurance, and deliberately so. As a company grows, if it does not change anything else, it will get less relief. However, that is not normally what happens. A company tries to occupy premises that are appropriate for the number of employees that it has; it will not have acres and acres of free space. Generally, if a company is expanding, it is taking on new plant machinery, new premises and new employees at the same time. As the number of employees increases, the percentage relief that the company gets might go down; but if, at the same time, it is expanding its premises, a smaller percentage of a bigger figure might give the company more relief, which will be a further incentive to growth.

For example, if the company was getting 75 per cent relief when it was paying £2,000 in rates, the relief would be £1,500, whereas, if the figure fell to 60 per cent when the company was paying rates of £3,000, the relief would be £1,800. Therefore, although the percentage has fallen, the relief has risen. Under the system, there is a strong incentive for the company to grow. That point is so vital that I will undertake to send committee members a further note on the subject, if they would like that.

Mr Gibson: Yes, thank you.

Bristow Muldoon: I might have missed this, but what would be the total cost of your proposal if it were funded from the Scottish block?

Nick Goulding: In Scotland, the figure is around £45 million.

Gerry Dowds: That is the same as the FSB's scheme would cost.

Nick Goulding: Pretty much the same. The difference is that about 60 per cent of the recipients under the FSB's scheme would be big businesses. In our scheme, 100 per cent of the recipients would be small businesses. Therefore, the amount of relief that any one small business gets is much higher.

Mr Paterson: I congratulate the two gentlemen on their paper and on the impact of their scheme on businesses. From your figures, and from your questioning of your members, it is clear to me that they are concerned about other small businesses. Yours is a scheme that could work, and it is the first one that I have seen which could work.

The Convener: Thank you very much for your presentation, gentlemen. You have heard the

members say that it was good and concise.

If Nick Goulding is sending a paper to Kenny Gibson, I ask him to send it to the clerk of the committee, who will forward it to everybody. We will need time to deliberate, and it would be better if we had all the information.

Thank you again, and I am sorry that we kept you waiting.

Gerry Dowds: Not at all.

The Convener: This is the last part of our investigation into business rates this morning, although we have other things to do after that.

Once again, I welcome the Scottish Assessors Association. Duncan Chisholm is not here, but we welcome Bill Johnston and John Cardwell. We will follow the same procedure as last week, if everyone is happy with that.

John Cardwell (Scottish Assessors Association): We will be talking about what we have heard this morning, unless committee members want us to go back to our previous presentations.

Members of the Scottish Assessors Association take a view as practitioners. We are the people who produce the valuations for the rating system, and it is not proper for us to express any view on policy. If Parliament decided to implement a system of small business rates relief, it would be a matter for Parliament and we would do our best to co-operate with the will of Parliament. I will therefore not comment on any policy areas that have been mentioned in the past hour and a half.

I shall comment on one or two practical points that have been made in the submissions, and give some general background. I am the assessor for the Lothian valuation joint board, with responsibility for Edinburgh and for the three Lothian councils—West, East and Midlothian. I have more than 20 qualified chartered surveyors on my staff, who will carry out the task of revaluation of all domestic and non-domestic properties.

I will give the committee details of that process. Consistency is obviously important, so staff work closely to the instructions that are issued. However, I remind them that they are trained, qualified chartered surveyors and advise them to have a good look before arriving at decisions. A street half of whose shops are empty tells a valuer something, as do rents, and surveyors must take cognisance of every factor before arriving at levels for rateable value.

Having said that, the system depends on assessors working to facts. If there is a sustainable level of rental value—rather than one high rent in a street—assessors must use that. If

they did not, the whole system would be based in sand. If an assessor made a subjective decision to reduce a value by, say, 50 per cent, the whole system would become open to any sort of challenge. All the work of assessors can be challenged through the local valuation appeal committee and the lands valuation appeal court, which can ask to see evidence of how valuations were arrived at.

We are checkable and we are qualified, professional people. We do our best to implement the system in as fair and as sympathetic a manner as we can, but we have to work on the basis of the facts as we find them.

13:15

Many of the submissions this morning have dealt with whether a property tax is the proper way in which to raise local government finance, which is a huge policy issue. Members will not expect me to give an impartial view on that, as it is entirely outwith my remit. However, several points might be of interest.

The Scottish Retail Consortium said that retailers would experience the largest increase in rateable values as a result of revaluation. Retailers occupy a whole range of properties, from very small ones to the kind of property owned by Marks and Spencer and retail warehouses. Without giving away any trade secrets, I believe that the largest increases will be for properties whose rents are increased the most, which will almost certainly be in the successful high streets—such as Princes Street—and operations such as retail warehouses with high values. As one of the members said, that is in part because effectively those organisations take trade away from other areas. Rents will decline in other areas to reflect the fact that there is not as much business there as there used to be because of changes in shopping patterns.

One legitimate problem with the introduction of a relief system for small businesses is how to deal with companies, such as Boots, which have branches that might be considered as small businesses because, under the broad criteria, they have a rateable value of £5,000, £7,500 or whatever, but which could not be considered as a small business in any real sense. That will have to be considered.

The issue of profits has also been raised. Turnover is used as a basis for valuation only for public houses and hotels. Rents are taken into account, but it is generally agreed within the surveying profession that the valuation is directly related to turnover. Gross turnover has always been used, for the simple reason that if one uses profit, one discovers that there is not a profit-making pub in Edinburgh—if anyone can believe

that—as gross turnover can be written off in many ways. We also consider other factors that might influence the rent. That is all that I want to say about the consortium's statement.

The Forum of Private Business talked a lot about national insurance. It would not be proper for me to comment on that, but I want to dispute one of the technical points that was made. It was stated that small businesses pay a higher rate per square foot than do large businesses. I do not see how that can be true. If we compare Marks and Spencer, which pays around £900 per square metre for its shopfront on Princes Street, with a tertiary shop, which might pay £50 per square metre, Marks and Spencer pays more whichever way one looks at it. Marks and Spencer generates more business, so it can afford to pay more. It could be argued that the property costs for small businesses are disproportionate, but that is another argument.

Zoning—the belief that the front part of the shop is the most valuable, because that is where most customers are likely to arrive and do business—was also mentioned. Zoning is a well-established system of valuation and is used throughout the United Kingdom. Private practice surveyors who argue against the valuations that I place on properties always refer to zoning. The courts have also considered zoning and have found it to be a fair and equitable system. However, it does not matter whether zoning is used; at the end of the day, the rented properties and valuations are stacked against one another and we check that they are the same, or mainly the same. That is the end test of any valuation system—the audit. Whether zones are used should make no difference.

The forum made a rather useful point about thresholds. As Mr Gibson said in response to the federation, if thresholds of £5,000 or £7,500 are set, that creates cliff edges, which are a bad idea. The result would be gross disparities of £600 to £800 for a £2 or £3 difference of rateable value. Such an approach would be a non-starter and would create a great deal of scope for appeals at the margins. On council tax, all our appeals came from people whose properties fell just inside one of the higher bands and who wanted them placed below the threshold. The more bands and thresholds, the more appeals there will be—it is as simple as that.

Finally, the forum made a technical point about the old utilities—gas and electricity—which it felt, were not properly valued. Gas, electricity and the railways are valued by prescription—the secretary of state gives us the figures and we work out values from them. All the utilities have argued for a long time that they are overvalued and that reductions should be made. During the past two

revaluations, they have asked for conventional valuation. They have not got it yet, but they may do so in 2005.

This morning, we received some good advice: if we are going to make fundamental changes to the system—and some of the changes that have been proposed, such as basing evaluations on national insurance, are fundamental—we should carry out corporate research first and not rush into anything.

Bill Johnston (Scottish Assessors Association): If the committee would like, I will summarise briefly the position of the Scottish Assessors Association on all the submissions. However, if you would like to break for lunch, I am happy to say no more; I am entirely in your hands, convener. I could probably summarise our position in five minutes.

The Convener: You may go ahead, if you can manage that.

Bill Johnston: We would urge great caution on the statistical information in the main submission by the Federation of Small Businesses. It was based on the federation's analysis of a limited area in Scotland and did not cover most of the country. The analysis was based on current values, but—as you have heard—we are in the middle of a revaluation. From 1 April, there will be new values. The analysis that the federation has carried out is, therefore, suspect. Furthermore, any scheme in which the main criterion for inclusion is the rateable value of businesses would undoubtedly benefit some large businesses, as we have heard this morning—10 per cent of Boots's properties, for example, would be included.

As practitioners who would have to deal with the large number of appeals that would be generated, we would also urge caution. As well as assessors, valuation committees, which are the place of first resort, would be faced with a substantial increase in work load.

Our main recommendation to the committee would be to take a step back. We suggest that the matter go out to consultation immediately after the revaluation, when new values are known. At that time, you will be able to choose as many subjects in whatever range of rateable value that you want and carry out an analysis or survey of the types of occupier of the properties. The cost of implementation of any changes could also be considered in much greater detail. At that point, you may welcome suggestions about how changes might be funded.

As an association, we can assure the committee that we are prepared to co-operate fully in any further consultation and to supply any statistical information that you or the firm that you appoint to conduct the analysis request. We will take all necessary steps to ensure that, whatever the

eventual decision, it is implemented fully and properly.

The Convener: Thank you very much. That was very helpful. Are there any questions?

Mr Paterson: I have a quick technical question. You raised the question of zoning. Perhaps I have got the wrong end of the stick, but my understanding is that it is shop frontage that is zoned. A shop such as Marks and Spencer may be up to 1,000 sq ft, whereas a small business may be something like 20 sq ft. The smaller business might be one or two people in a fruit shop, for instance, but the fruit shop in Marks and Spencer would be charged rates at a lower level. Have I got that wrong? Are they zoned on the same premise, which means that the impact on the small business is greater, pro rata?

John Cardwell: Properly done, zoning should not make any difference. The principle is that the front part of the shop is more valuable and that the property becomes less valuable as it goes back. The back of a Marks and Spencer shop—if that shop is entered only from one street—might represent a very small part of the value.

Let us imagine a street with four shops: when those shops are zoned, they have an average value of £8,000 and an average rateable value of £7,900—that should always be the check. If they are not zoned, the same figure should be reached. The rents and the final values are always stacked up, whichever way it is done. To compare a Princes Street shop to a tertiary or secondary shop is not realistic—they are different worlds. The system should not be disadvantageous to small businesses.

Donald Gorrie: I have received complaints on two issues, although other members may have received complaints on different issues. The first is that the sort of Comet warehouse-type place pays less than it should, when compared with a traditional shop. The second is that, because of the different kinds of pubs and so on, people who dish out booze think that they have a problem. I have had representations from various parts of central Scotland from people who think that they pay too much. Can you assure us that there is a proverbial level playing field for the Comets versus the ordinary shops and for the pubs versus shops?

John Cardwell: It is all based on the rental values. If Comet is paying high rents, the values will be high. You will not be surprised to find that the agents who represent the Comets and the retail warehouses of the world argue strongly that they are overvalued and that we are hard on them.

Assessors and staff are aware of the discrepancies. I remember one case, in Leith, in which one rent was clearly outrageous, but it was the only rent that we knew of in that street. We

could have said that, as it was the only rent that we knew of, that would be the level of value. However, we looked at surrounding streets and thought that it was outrageous, so we ignored the rent and put what we thought was a fair level of value on the street. Six months later, when I was passing those premises again, that person had gone out of business, because they had been badly advised.

We try to take a wider view when we can. However, we cannot move too far away from the evidence that we have. Once hugely subjective judgments start to be made, the whole system is based on sand.

Donald Gorrie: There are also the pubs. They are assessed on a different basis, are they not?

Bill Johnston: We are privy to certain information on levels of rental. It would not be unfair to suggest that, when the new levels of value are issued, retail warehouses in out-of-town locations will show substantial increases in value. As for town centre locations, I go along with what John Cardwell said. Princes Street, for which John is the assessor, and—in Glasgow—Argyle Street and Buchanan Street, for which I am the assessor, will show substantial increases in value. However, tertiary locations—the main roads into Glasgow, such as Victoria Road or Duke Street—will probably show a downward movement in rental values. That will be reflected in the values that we issue.

In simple terms, licensed premises are valued on a percentage of the achievable turnover of those locations, based on analysis of the rents. For example, we anticipate that a public house that draws in the region of £100,000 would pay approximately 10 per cent of its gross turnover. We know that from the rental evidence. We then project that to the unlet pubs. Pubs are valued using a unit of comparison of turnover: the higher the turnover, the higher the level of rateable value will probably be. It is all based on the rental evidence.

Donald Gorrie: If the publicans are right when they say that they are being shafted by the owners, that means that they are paying an undue rent, which would be reflected in an undue rate.

Bill Johnston: No. There is a variety of types of rental evidence for public houses. I declare an interest as the son of a publican and the author of the scheme of valuation for the previous revaluation. I went into great detail and did a tremendous amount of negotiating with the main brewers. From those discussions, we determined what we called the clean rents: not those where there is a tie to the brewer, but those which are a straightforward property transaction. Once those rents have been identified, the unit of comparison

is the ratio of the rent to the turnover, which is expressed as a percentage.

13:30

Mr Paterson: So the faster you drink, the cleaner it gets. [*Laughter.*]

Fergus Ewing: You indicated that if the Federation of Small Businesses' scheme went ahead you would be flooded with appeals. Is it not the case—given what you have said—that because the average rateable value increase will be around 10 to 15 per cent, as opposed to 33 per cent last time, you will have far fewer appeals based on rateable value than you had last time round?

Bill Johnston: We wish that that were true. Our experience shows that, as a matter of course, the vast majority of ratepayers will launch appeals, with private practitioners—qualified valuers—acting on their behalf. No matter what the level, they will always appeal.

John Cardwell: The point is that they will have an additional incentive if they can get the threshold down, rather than just a few pounds off the rateable value.

Fergus Ewing: In our previous meeting, Duncan Chisholm admitted that that would not necessarily be the case. The scheme could be modified to be much more tapered.

John Cardwell: We would get a huge number of appeals at the high-thousands level. A threshold scheme may help, but people feel aggrieved if they are slightly into the next threshold—perhaps that is human nature. They would love to get down to the lower threshold.

The Convener: Thank you for your contribution; I apologise for keeping you longer than expected. It is interesting to hear the other side of the argument. It would be a good idea if you came to every meeting and summed up at the end of it. [*Laughter.*] As I say to everyone else, we will ask you back again if we feel that it is necessary.

I will carry on quickly, because we are running over time—apparently, we get into trouble from the official report if we do.

We have taken evidence about the business rate from the various groups. We have four choices: we can do nothing, we can write a report, we can make representations to the Executive or we can combine the previous two options. We will start with the first option. Given the evidence that we have heard and the importance of this matter, are there any votes to do nothing?

Mr Gibson: No.

The Convener: Good. I take it that everyone

agrees with Kenny. Do we write a report and make it a representation to the Executive?

Mr McMahon: May I suggest that members collate their own thoughts and bring them to you and the clerks? You could then draw up a final report, which could come back to the committee for a general discussion.

Mr Gibson: I suggest that we thrash out this matter at a meeting and submit a consensus report, rather than produce individual reports.

The Convener: I do not think that Mr McMahon meant that. The idea is that I write the report with Eugene Windsor's help. If members want me to include a particular issue, they should give me some written information. I will bring the report to a committee meeting at which we can discuss and amend it.

Bristow Muldoon: I would prefer it if we had a meeting at which we discussed the evidence.

The Convener: Before I write the report?

Bristow Muldoon: Yes.

Mr Gibson: That is what I meant. We have heard a range of different views, which we should discuss.

Dr Jackson: We must decide at that first meeting how much detail we want to go into. We may agree on the thrust of what we are going to say, but we may also feel that we need more investigation and research.

Johann Lamont: I would prefer it if we had a document in front of us to work to. My fear of discussions is that we may run into the sand, so that when we get the report, we will want to discuss it anyway. We should ask the convener to outline the basic shape of what we will be reporting on. That will enable us quickly to identify the points of contention. The issues that we discuss will come partly from our perceptions of what was said, but it will be helpful if we have a document to work round.

The Convener: Eugene Windsor and I will timetable that discussion. If members want to comment, they can make points at that meeting or later. I will certainly bring a paper to the committee that lays out what we have heard. If you want to write to me, that will be fine.

Mr Gibson: On the timing, the assessors made it clear that we should consider the subject only when we get the figures, as so many of those systems are based on figures. The assessors have taken the view that we should wait and see what the evaluation figures are—that will enable us to examine the detail on the basis of the new evaluations.

The Convener: Are members happy to leave

the timetabling to the clerk and me? You will appreciate that the business rates issue came to us through a series of other committees, so it has been added to our programme. That is why we have overrun so long today. Eugene and I will timetable something. I will produce a paper to give you some sort of outline as to what we believe are the relevant points. The committee can add to that and then I will write the report. That seems to be my job.

I thank you all very much. It is late and it must have been difficult to jump from proportional representation to the business rate. It was well worth doing.

Dr Jackson: I was somewhat attacked when I went to a meeting of another committee. I would like to say that Fergus was welcome to attend this meeting—we appreciated what he said, coming from outwith the committee. I want to show that, as I said at that meeting, we are a positive, constructive committee that likes other members to attend.

The Convener: Fergus, your part is to say, "Yes, that's right."

Fergus Ewing: I love you too. [*Laughter.*] I thoroughly enjoyed my time at this committee. I thought that there was some terrific convenership.

Johann Lamont: There is a serious point about the role of the committees. The strength of this committee is its ability to conduct its business constructively, regardless of members' political positions. If we have faith in the committee structure and do not view it as an extension of the chamber battleground, that will help the work of the Parliament. This committee has been a fairly good model so far.

The Convener: I agree. As I have said before, there is a feeling round the table that we have a job to do. Moreover, there is a commitment to local government. That makes it easier for me as the chair.

Conference Report

The Convener: Donald Gorrie has given us the paper on the conference that he attended. He has stated that he does not wish to add to it. If anyone would like to ask him questions outwith the meeting, that is fine.

Donald Gorrie: There is a summary by Morag Brown.

The Convener: Yes, the summary is by Morag. She said that she did not want to speak—her wish not to speak was obviously so great that she has disappeared.

Convener's Report

The Convener: I met representatives from the Convention of Scottish Local Authorities on 4 November. I will put that matter on to the next agenda, so that we can go for lunch now.

Have we had a reply from the Minister for Finance about the special needs allowance?

Eugene Windsor: You have had a reply.

The Convener: Thank goodness for the clerk. The minister's reply simply stated that he would give us a more detailed response.

Mr Gibson: He is saying, "Thanks, I'll get back to you."

The Convener: At least he is saying that.

13:40

Meeting continued in public until 13:59.

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