LOCAL GOVERNMENT COMMITTEE

Tuesday 1 May 2001
(*Afternoon*)

Session 1

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CONTENTS

Tuesday 1 May 2001

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LOCAL GOVERNMENT COMMITTEE
13th Meeting 2001, Session 1

CONVENER

*Trish Godman (West Renfrewshire) (Lab)

DEPUTY CONVENER

*Dr Sylvia Jackson (Stirling) (Lab)

COMMITTEE MEMBERS

*Mr Kenneth Gibson (Glasgow) (SNP)
*Mr Keith Harding (Mid Scotland and Fife) (Con)
*Mr Michael McMahon (Hamilton North and Bellshill) (Lab)
*Mr Gil Paterson (Central Scotland) (SNP)
*Iain Smith (North-East Fife) (LD)

*attended

WITNESSES

Bill Anderson (Forum of Private Business)
John Cardwell (Scottish Assessors Association)
Gerry Dowds (Forum of Private Business)
John Downie (Federation of Small Businesses)
Matthew Farrow (Confederation of British Industry Scotland)
Nick Goulding (Forum of Private Business)
Bill Johnston (Scottish Assessors Association)
Robert Kilgour (Confederation of British Industry Scotland)
Sandy McConochie (Scottish Assessors Association)

CLERK TO THE COMMITTEE

Eugene Windsor

SENIOR ASSISTANT CLERK

Irene Fleming

ASSISTANT CLERK

Craig Harper

LOCATION

Committee Room 1

Scottish Parliament

Local Government Committee

Tuesday 1 May 2001

(*Afternoon*)

[THE CONVENER *opened the meeting at 14:04*]

Items in Private

The Convener (Trish Godman): Okay, comrades, we can start our 13th meeting.

The first item on the agenda is to seek the committee's agreement to hold items 3 and 4 in private, as we will be considering draft reports. Are we agreed?

Members *indicated agreement*.

The Convener: Nodding does not help the official report.

Members: Agreed.

Non-domestic Rates

The Convener: We return to the issue of non-domestic rates for the next item on the agenda. In November 1999, the committee held a short inquiry into the revaluation of non-domestic rates and published a report in June 2000, which called on the Executive to establish a relief scheme for small businesses. Knowing that this is a very important committee, the Executive has listened to us and decided to announce a consultation on a proposed scheme. In November 1999, we appointed Ken McKay to advise us on that report, and he is here today to do the same thing again.

As the Scottish Retail Consortium has not been able to accept our invitation to give evidence, we will not be hearing from that organisation today. Furthermore, I would like to have a coffee break after we have heard all the evidence.

We start this afternoon with the Forum of Private Business, which has given evidence to us before. Attending the meeting today are Nick Goulding, who is the chief executive for the FPB; Bill Anderson, the campaigns manager for the FPB in Scotland; and Gerry Dowds, the director of the FPB in Scotland. I thank the witnesses for coming. The procedure is the same as before. After you give your presentation, I shall open the meeting up for questions.

Gerry Dowds (Forum of Private Business): I thank the committee for welcoming us here today.

Committee members should have received a copy of the presentation format that we would like to walk everyone through. It contains some colourful pictures of particular properties, which we will refer to halfway through the presentation. Furthermore, the committee should have received a copy of our submission, to which we might also refer.

This afternoon, we want to achieve three basic aims. First, we want to assess how the Executive's proposals measure up to the committee's good recommendations, which were listed in its report of 24 June 2000. Secondly, we want to prove that targeting rates relief on premises discriminates against particular small businesses, and is therefore ineffective. Finally, we will propose a much better alternative that more closely reflects the committee's recommendations.

In our presentation, we take a little licence by dividing verbatim extracts from the committee's report into five core points. First of all, the committee grappled with the problem of measuring smallness, which we think is a fundamental issue. The committee report said:

"The Committee is strongly of the view that, if at all possible, a rates relief scheme should apply to genuinely small businesses, and not to medium or large businesses occupying small premises".

Given the undisputed disproportionate burden that small businesses face, that was wise advice; however, the proposals target premises not businesses.

Furthermore, we endorse both the report's conclusion that

"The Committee recognises that any scheme which simply used a RV threshold as the basis of eligibility would not differentiate between those categories of businesses"

and the recommendation

"that consideration should be given to the use of some other means—for example national insurance contributions (as suggested by the Forum of Private Business in Scotland) or business turnover".

We agree with that because rateable value is a poor measure of determining the size of any business.

The second core principle that the committee considered was that relief should be tapered

"to avoid small changes in RVs producing large increases in rates bills."

Once again, that is wise advice, and a solid principle, but it will be ignored if the proposals go ahead in their current form.

The third principle that you advocated was that any new relief scheme should not bring about unnecessary appeals. We believe that given the current stipulated threshold and the bands that are below it, there will be an increase in appeals.

The fourth principle that you proposed—which, with respect to the committee, is the one with which we disagree—is that there should be a threshold to determine an upper limit. We feel that that is too difficult. Your research was laudable. I quote from your report:

"The Committee would wish to see whether or not there was any natural break-point in the new RVs which differentiated between, on one hand, small businesses and, on the other hand, medium … businesses."

You are absolutely right to address that issue, but using rateable values as the criterion to do so is a lost cause, and we will demonstrate why.

Rateable value is a poor proxy for identifying the size of a business. The Executive's proposals admit that. Why? Because it has had to shoehorn in additional eligibility criteria—for example, an employment threshold and a turnover threshold. Why? Because the rateable value does not differentiate in the way that you want it to. We all want a suitable taper, one that does not have a break point that distinguishes between small and medium businesses, and one from which all businesses that can reasonably be described as small benefit. We put it to you that there is such a taper, and we will advocate it later.

The fifth principle that you refer to—which is jolly important, and most people recognise it—is that the scheme should be self-financing. The Executive's proposals endorse that.

Page 4 of our submission examines the heart of the Executive's four proposals, and we will address three of them. First, it is proposed that relief should be determined by the size of the property, not the size of the business, which is contrary to your recommendation. The second proposal is that there should be no relief over a rateable value of £8,000. The third is that there should be additional eligibility criteria on employment and turnover. We will not address the proposal that the scheme should be self-financing, apart from saying that if the proposals are untouched, small businesses will pay extra for their rates unnecessarily.

I will take each of the above proposals in turn. First, I will address the flaws of a property-based relief scheme. It is a fact that large firms occupy small premises and small firms occupy large premises. For the moment, we will accept that, under the proposals, we are talking about properties with a rateable value of more than £10,000. You may remember Mike Flecknoe, the director of properties for Boots, who gave excellent evidence to the committee in November 1999. He said that 10 per cent of Boots's properties have a rateable value of less than £5,000 and would benefit from small business rates relief.

We also know that many small businesses occupy larger premises. The nursery that one of my children goes to has a rateable value of more than £10,000. What do we do? Do we say, "Your premises are too big. We really need these children to be walking about, not running about in these premises, so you do not deserve relief"? With four employees? I do not think so. Garages, furniture shops, cycle shops and restaurants, any business that needs a bit of space within which to trade would be excluded from the scheme. It is also said that 70 per cent of small firms will benefit from the rates relief scheme. That is not so. Although 70 per cent of properties may have a rateable value of less than £10,000, that does not mean that they will benefit from the scheme.

There are great differences between business sectors. If we consider hotels—and we should, because business rates relief has been delivered as a result of foot-and-mouth disease—there are few hotels in Scotland with a rateable value of less than £12,000. In fact, not 70 per cent but 7 per cent of hotels will benefit, because most of them are well above the threshold. We can throw into that situation town-centre businesses, pubs, inns and any business that needs decent floor space in which to trade.

14:15

The third flaw that we wish you to consider is that the relief will end up not in the pockets of tenanted businesses, but in the pockets of landlords, because 53 per cent of all Scottish commercial premises are rented. That figure, which is shown on the second last page of our submission, was taken from evidence that was provided to the Executive by the assessors. The Executive's consultation document ignores the proven relationship between rent and rates, as shown in the report "The Relationship between Rates and Rents" in 1995, which found that as rates come down, rents increase to fill the gap. In case there was any doubt about that, we wrote to the Minister for Finance and Local Government on this issue three times, and we met him two months ago. We said that if there is doubt that the relief will end up in landlords' pockets, why not commission research?

A former member of your committee, Donald Gorrie, wrote to the Minister for Finance and Local Government. On the final page of our submission is the minister's reply to Donald Gorrie on 19 December, in which he said:

> "We do not have any firm evidence of the effects of rates relief on small businesses. We should remember that any such relief would in fact target small properties, not small businesses. The amount of rent that a landlord can charge for such a property depends on market conditions. Where demand is strong, it would seem likely that the total accommodation costs for small businesses would not change very much in response to a relief, and that landlords would be the primary beneficiaries."

You only have to look at the way in which property has developed over the past 10 years, and the way in which businesses are tending towards leasing, not owning, their premises, to know that half of those businesses that should be getting relief will not get it. The relief will go into landlords' pockets.

The fourth major flaw is that there will be unnecessary rates appeals. Every revaluation, even without thresholds, produces appeals. When we produce a rates relief scheme with thresholds of the sort that are proposed, at both the upper limit and within the bands, you can bet your bottom dollar that there will be a substantial number of appeals, because there will be a substantial incentive to appeal against your business rate. Why? Because there is money to be saved at each break point. Last Friday and Saturday morning, I went to 20 businesses in Stirling with a rateable value of between £10,000 and £15,000 and asked them, given the relief scheme, whether they would appeal against their business rates. Of course, every one of them said yes.

The fifth major flaw is that we want a dynamic Parliament, and we want a dynamic measure that helps small businesses. Using rateable value information is flawed, because it dates with every day that passes. We have to wait five years before we get current information. Businesses' circumstances change day by day, week by week and month by month. We need a scheme that reflects what is going on in business now, not what happened five years ago.

I will hand over to Bill Anderson to address page 6 of our submission, but in order that he can explain the main points that we want to get across, I will provide some background information. Page 6 addresses the second main aspect of the Executive's proposals, which is that there will be no relief for businesses that have a rateable value of more than £8,000. We would like you to review page 6 and the photographs that we have provided.

Bill Anderson (Forum of Private Business): The committee has a copy of the nice colour photos. The report that you were given earlier contains the black-and-white copies of the photos. We want to consider the fact that no relief will be given to businesses with a rateable value of more than £8,000, and that for rateable values of more than £10,000 there will be a 2.75 per cent surcharge. Businesses with a rateable value of £10,000 or more will be classified as big business.

Exhibit I contains photographs of the newspaper kiosk and coffee kiosk at Stirling bus station. The Wall's ice cream cabinet that can be seen in the top photograph does not belong to the newspaper kiosk, nor does the booth on the left, but the rateable value of that business is £10,000. That cannot rank as a typical example of a big business. Darcy's coffee bar, which is shown in the bottom photograph, also has a rateable value of £10,000.

We looked at Inverness, our newest city. The bottom photograph is of a small jewellery shop there. I have marked the depth of the shop, including staff facilities. That is surely not a typical example of a big business, but its rateable value is £17,000.

We decided to check rateable values in somewhere smaller than Inverness, so we went to Elgin, which has a population of 20,000. In the top photograph of exhibit III, you can see two plinths. Some properties beyond those plinths have rateable values of less than £10,000, but none on this side of them and right into the centre of the long High Street has a rateable value of less than £10,000. For example, the Ionic Bar, which can be seen in the lower photograph, has a rateable value of £12,750.

Having mentioned licensed premises, I will discuss tourism businesses. Exhibit IV shows the Highlander Inn in Craigellachie. You will agree that as it has five bedrooms, it is not exactly what one would call a big hotel. Its rateable value is £10,400. In case you think that that is the exception, as Craigellachie is out in the country, we looked at the situation in Inverness. The smallest licensed hotel on the Highlands of Scotland Tourist Board accommodation list for Inverness, a 12-bedroom hotel, has a valuation of £47,500.

Other business sectors will be affected. Gerry Dowds has mentioned businesses that require a large area, such as garage forecourts, which are valued on the basis of their turnover. We think that few of those businesses will qualify, particularly in towns.

We have had many messages of support, for example, from the British Aggregates Association, the Scottish Pharmaceutical Federation, the Freight Transport Association, the Scottish Ship Chandlers Association and, this morning, the Scottish Chambers of Commerce. Bill Stitt, the deputy director of the Scottish Chambers of Commerce, wrote:

> "We would be happy for the Forum of Private Business in Scotland to express the Scottish Chambers of Commerce's rejection of the scheme currently being proposed."

Let us look at town-centre properties. Exhibit V shows Inverness. The bottom photograph is of Union Street, where not even the smallest shop qualifies. In Church Street, which is shown in the top photograph, only the shops at the end of the street qualify. There is the same tapering effect that we found in Elgin.

The top picture in exhibit VI shows the High Street in Inverness leading into Eastgate. None of the businesses in the picture has a rateable value of less than £10,000. The result is that many businesses have fled off the main streets into side streets and, in Inverness, into the Victorian arcade, which can be seen in the lower photograph. Even there, half the properties are valued at more than £10,000.

None of the properties in the centre of Elgin has a rateable value of less than £10,000. The smallest shop in the centre of Elgin, Sonya's Designer Clothing, which can be seen in the lower photograph of exhibit VII—members will admit that it is not a very big boutique—has a rateable value of £16,750.

The Convener: Could I interrupt to say that I think that we have got the message about rateable values? Could we move on, as I am conscious of the time and of the fact that other people have to speak?

Bill Anderson: I will finish on that point.

Gerry Dowds: The third aspect of the Executive's proposals relates to the additional eligibility criteria. We believe that a properly researched relief scheme that is based on the principles that the committee set out last June should not need crude additional eligibility criteria, each of which would involve yet another threshold.

We propose a £200,000 threshold for businesses. Corner shops that have very low margins cannot make a living on anything less than a turnover of £200,000. Should not they get relief?

A six-employee threshold is one of the cornerstones of the paper. The owner of a café that has a £4,500 rateable value might think, "Great. I'll get the maximum relief—but hang on, I have seven part-time employees. I'll sack one to get the relief." Thresholds distort competition and restrict growth and we now have not one, but three thresholds: on rateable value, on turnover, and on employees. Why not chuck in one on the number of windows in the premises or on the number of cars the owner has? The position could not get any worse. If this is the best scheme that the Executive could come up with, God help us. Surely the devolved Parliament should mean well-researched solutions to help business. Instead, we meekly follow what is going on south of the border.

It is shameful that so little time and effort has been spent on three fundamental issues, which have been ignored in the proposal. First, there has been no research into the Scottish rental position, but the relationship between rent and rates is case-proven. That has not been disputed since 1995. Therefore straight away, 50 per cent of businesses receive no relief. Secondly, there has been no investigation of the impact on town centres. Bill Anderson has already given the committee chapter and verse on that. If that is the case in Elgin, Inverness and Stirling, what about Glasgow? One can imagine what the rateable values are there. Thirdly, nobody in the civil service has helped the ministers and nobody in the Scottish Valuation and Rating Council has spent the 30 minutes that it would take to go through the valuation rolls to check out that the whole of the tourism industry might as well write off the relief. We cannot believe that those three gross errors have been made in producing the proposals.

We cannot have this apology for a scheme—we need something better. We need a relief scheme that picks up the principles that the committee outlined last June. There should be a scheme that enjoys the support of the small-business community. Eighty-nine per cent of our members have rejected any scheme that is based on rateable value. We encourage the committee to ask other organisations that give evidence whether they have consulted their members by ballot on the matter. Any scheme should target relief according to the size of the business, rather than the premises, and it should avoid discriminatory thresholds. A scheme should not discriminate against tourism businesses or any other sector. The size of the business should be measured on current information. The scheme should taper relief and not shoehorn in unnecessary thresholds. The scheme should not produce unnecessary appeals and should not give relief to landlords, but not to tenants. It should be simple for the Executive, for local authorities and for businesses to apply the scheme and it should be a scheme that we can all follow reasonably well.

There should be a dual-tapered scheme, as we told the committee previously. Such a scheme would make use of employers' national insurance contributions as well as rateable value or gross rates paid. The use of rates liability and national insurance produces a flat taper that ensures that any decisions that a business makes are not distorted or confused by a relief scheme.

As far as implementation of such a scheme is concerned, the key stakeholders need fear nothing. First, the business owner would apply the scheme in exactly the same way as statutory sick pay is applied now. Statutory sick pay is already reimbursed—businesses claim it monthly or quarterly as a deduction from their tax and NI payments according to tables that the Inland Revenue provides. It is fully administered through the pay-as-you-earn scheme. The business owner would simply register the relevant premises with the tax office and the local authority would, on request, provide the Inland Revenue with data regarding occupancy. That also goes for the assessors. The Executive would supervise the scheme overall, and some form of adjustment of the redistribution formula would need to be applied to business rates to ensure that the national insurance fund was reimbursed by the amount of money that was paid out in business rates relief.

Where would the burden of administration fall? It would fall on the Inland Revenue. We have considered the matter and discussed it with Inland Revenue officials, and we can safely say that the requirements on the Inland Revenue would all be deliverable within existing Inland Revenue structures. There would be a cost, but it would not be disproportionate to the benefit, and the cost implications fit into the existing structures.

14:30

I will summarise. First, the proposed scheme does not satisfy the principles that the Local Government Committee arrived at in June—after seven months of deliberation. Secondly, it discriminates significantly against huge tranches of the small-business community in Scotland. Thirdly, there is a better alternative that follows the principles that the committee upheld.

The Convener: Thank you. I shall start the ball rolling, while other members decide what questions they will ask.

Paragraph 1.6 of the Executive consultation paper deals with

"Concentrating the relief on businesses most in need",

and paragraphs 1.7 and 1.8 address

"Grounds for qualifying for relief".

However, section 2B of your paper states that the proposed scheme

"specifically aims relief at premises, not businesses."

Can you clarify that statement or expand on it?

Gerry Dowds: Do you mean our scheme or the Executive's proposals?

The Convener: The Executive's proposals. Why do you suggest that they aim relief at premises, not businesses?

Gerry Dowds: Essentially, because the Executive has chosen to determine relief based on rateable value. Rateable values are tagged to premises, not to the dynamics of the business.

I do not have the paper to which you refer, but I remember the first page. The Scottish Valuation and Rating Council suggested that relief should be targeted at premises, not at businesses, and the Executive chose to accept that suggestion, thereby rejecting the committee's recommendation, which was to find some other means of assessing businesses—for example, through national insurance or turnover. The Executive's proposals deliver relief based squarely on the premises, not on the businesses.

Mr Michael McMahon (Hamilton North and Bellshill) (Lab): In paragraphs 1.11 and 1.12 of the Scottish Executive's consultation paper, it is suggested that certain types of property, such as advertising hoardings and telecommunications masts, should not be eligible for relief. Do you agree with that, and do you think that any other types of property should be excluded?

Nick Goulding (Forum of Private Business): That depends on who owns and who operates the property, because it forms part of the overall rateable base of a business. In the vast majority of cases—almost invariably, in the case of masts—those classes of site are operated by large companies. Those businesses should not benefit from relief that is based on the size of the business. Therefore, those sites should be excluded. In cases in which an advertising hoarding may form part of the hereditament of a genuinely small business—and part of its revenue and cost structure—the decision about whether it should benefit from relief on that hereditament should be based, as is mentioned elsewhere in our proposal, on the size of the business.

Mr McMahon: So, if a small, independent business is operating beside a chain store, the turnover of the independent proprietor alone should be counted, not the overall income from the company?

Nick Goulding: It is not turnover that we are suggesting as an indicator, because there are specific problems in measuring turnover, which I could explain in more detail. It is the size of the business that is pertinent.

The original research that was carried out by the Department of the Environment, Transport and the Regions—which provides the rationale behind much of the linkage between the impact of rates on businesses and their size—is the sister report to the one that we have in front of us. It makes clear the fact that the determining factor in the impact that rates have on a business is the size of the business.

Mr McMahon: Is it possible for a company with a chain of shops to work at tight margins in every outlet, but to appear quite profitable overall? Would such a company be penalised under the proposed scheme?

Nick Goulding: I understand the question, but further research would be required on the impact at the margins of that sort of business. On average, taking into account sector by sector the capital employed in the overhead spread across the business as a whole, and the way in which the business operates, the principal determining factor in the impact that occupancy costs have on a business's total cost base—rates are clearly an important part of the occupancy costs—is the overall size of the business. Bigger businesses tend to operate in different ways and have different cost structures from smaller firms. I am not saying that, at the margin, a larger business might not occupy a marginal position, in terms of profitability. However, in general, the relationship holds good.

Mr Kenneth Gibson (Glasgow) (SNP): Gerry Dowds talked about the way in which landlords would benefit if the focus were on small properties, rather than on small businesses. Would that happen under your scheme?

Gerry Dowds: No.

Mr Gibson: Why would the situation be different?

Gerry Dowds: Our proposed scheme targets a business by using two measurements, the first of which is a true measurement of the size of the business. Any reasonable criterion could be used—perhaps turnover, profits, rateable value or national insurance. Of those four broad options, we have chosen national insurance, because it is probably the best proxy for determining business size. Why? It is because another dollop of turnover is needed to employ another person. Therefore, the level of national insurance reflects how well a business is doing. That is the central measure of the business.

To prevent a business owner from saying, "I shall sack a member of staff to get relief", that figure is correlated with, on the other axis, the overall rateable value, or the gross rates paid, of the business. The result is a line that is much flatter, which delivers relief according to the size of the business, not according to the premises. In addition, a business owner who is renting the business premises has the relief delivered to him according to the number of people he employs.

The money would accrue to the business owner through self-deduction. He would deduct monthly or quarterly the relief that would accrue to him through the self-deduction of national insurance contributions. The landlord knows that the business owner is in a property that has a rateable value of £5,000 and that he can command a rent of £X for those premises. If rates reduce and the property goes on the market, the landlord will know that he can command—particularly when there is strong demand for property—a level of rent that relates to the demand for the property. Therefore, the landlord can push up the rent according to the demand for the property. That is what the report titled "The Relationship between Rates and Rents" says. As rates fall, rents rise.

Mr Gibson: I am conversant with that argument. However, if relief were delivered under your scheme, businesses would become more prosperous. Would that tempt landlords to raise rents?

Nick Goulding: The fundamental difference is in transparency in the property market. If the criteria on which rateable value is based are transparent in the property market, the landlord will have those data and will take them into account in setting the rent during a rent review. The rent review is the basis of that relationship.

Under our scheme, the relationship is between the business—regardless of the properties that it occupies—and the Inland Revenue, and that relationship is confidential. Therefore, the landlord has no data on which to base any transference. That transparency issue means that the two factors do not apply. A fundamental reason why we chose that mechanism is that it separates the relief from the property market.

Mr Gibson: I understand. In point 2E of your response to the Executive's consultation document, you quote the committee's report, which stated:

"The Committee considers it essential that the relief scheme should be designed so as to avoid small changes in RVs producing large increases in rates bills. This point applies both within and at the upper limit of the relief scheme."

You also said:

"That was wise advice that unfortunately will be ignored if the present proposals go ahead."

Why do you suggest that if the present proposals go ahead, small changes in rateable values will produce large increases in rates bills, as opposed to rents, on which we just touched?

Bill Anderson: We suggest that because the Executive's scheme is not tapered. A scheme with steps continues to have the problem that going up to the next step means a step upwards. We suggest a dual-tapered scheme. When I spoke earlier, I talked about how no relief is available between rateable values of £8,000 and £10,000, but once a business hits £10,000—bang—its rates bill increases by 2.75 per cent. That means that the business owner pays a penalty for being considered to have a big business.

Mr Gibson: Is that the point at which floods of appeals will be made?

Bill Anderson: I have watched revaluations since 1985. People have various motivations for appealing, such as trying to reduce a valuation. For example, the Highlander Inn—members have seen a photograph of it—has a rateable value of £10,400. If the proposed scheme had operated when it was valued, the business owner would have had every encouragement to try to reduce its valuation below £10,000 and possibly below £8,000. Any surveyor who tried to sell the idea of an appeal would say, "Look chum—if I can get you below £8,000, you'll get relief. If I get you below £10,000, you'll save the surcharge." The system would provide an added incentive for valuation appeals, as the committee correctly said in its report.

Mr Gibson: So the scheme would be unworkable because of that sole criterion—I know that you mentioned several criteria, which I will not explore, as other members want to ask questions. You consider the step approach to be a major flaw.

Gerry Dowds: A taper delivers a curve, which means that decisions are not distorted, because they will have the impact of only a small incremental movement on the business. As soon as a scheme has steps—I will call them thresholds—every threshold provides an excuse for forming an appeal. If the scheme has five thresholds, we are talking about hundreds of pounds for small businesses, so they jolly well will appeal.

14:45

Members should not forget that no professional chartered surveyor in Scotland does not work under a self-financing scheme. The business owner will not pay for the appeal. They will not pay to get money back. A chartered surveyor will say, "No win, no fee. If I get nothing for you, you will pay nothing." Therefore, at revaluation time, business owners will say, "I've got nothing to lose. Every break point provides an opportunity for me to duck under the threshold." By golly, business owners will find ways of doing that, because five years will have passed since the previous revaluation, which means five years of circumstances that will encourage the business owner to say that he now deserves a lower valuation of his premises. Any chartered surveyor who is worth his salt will say that the scheme would be a licence for many more appeals than take place at present.

The Convener: Gil Paterson would like to ask a quick question.

Mr Gil Paterson (Central Scotland) (SNP): Gerry Dowds has answered my question.

Iain Smith (North-East Fife) (LD): Do you suggest that rateable value should play no part in a rates relief scheme?

Gerry Dowds: No. Page 9 of our submission shows that the tapered scheme that we advocate has a dual taper, which brings us back to the central point—it was important to the committee last June—that we should not stunt the growth of businesses. If our scheme were based on a single criterion, it would have that flaw. However, our tapered scheme uses the overall rates liability of a business. The bands are merely suggestions. The Executive could choose whatever number of break points it preferred. Our scheme combines rates liability with gross monthly employers' national insurance contributions. Rates play a part in our scheme, but they do not play the determining part in identifying a business's size.

The committee said that we should try to target relief at the size of the business. We do that by considering the level of national insurance contributions that the business pays. However, many anomalies exist in that—members could think of many—and it would be insufficient to use only that parameter. Therefore, we took the next major constituent part of the equation, which is the property that the business occupies. According to our scheme, a business that pays £15,000 in rates and £8,000 in employers' national insurance per month receives relief of 38 per cent. Therefore, rates play an important part in ensuring that the taper is smooth, not sharp, and that it does not produce distorted business decisions.

Iain Smith: Thank you for that explanation, which helped me to understand the table in your submission—I was not entirely clear about it.

Gerry Dowds: That was my fault, not yours. I should have explained the table better.

Iain Smith: Your submission highlights several flaws of the rating system as it affects small businesses. I will take the discussion a step beyond the relief scheme. Do you suggest that the present system of taxing small businesses for local government is wrong and that we should consider another system?

Gerry Dowds: We could use up time today in answering that question, but the committee has been kind enough to ask us to provide written evidence for its local government finance inquiry. However, we will take your lead. If you would like us to respond to that question now, we will be pleased to do so. However, we will write formally to you on that issue separately.

Iain Smith: We will wait until we receive your written evidence.

Mr Paterson: The witnesses may not have had the benefit of reading the paper that committee members received from the Scottish Valuation and Rating Council, which points out that properties in Scotland that are similar, and in similar situations, to properties in England are paying 9 per cent more because of the poundage set by the Government. Is it still your view that any scheme should be self-financing?

Nick Goulding: We made it a central tenet that the scheme should be self-financing because that was a given parameter in the Executive's consideration of the issue. However, our proposed scheme does not have to be self-financing. That is not an essential attribute. The scheme is equally deliverable in a non self-financing way.

Making the scheme self-financing means ring-fencing it to a particular group of taxpayers. That could have merit. However, if central funds were available to pay for the scheme, we would not object—except to point out that money would have to be raised from other taxpayers to pay for that. The problem would then be where that burden would fall and what its knock-on effects would be. Somewhere in the system, someone will have to pay for the relief scheme. If small businesses are paying less in rates and if there is the same need to raise tax—which is the Executive's central proposition—someone will have to pay for it. If there is ring fencing within the rates system, we know who will bear the burden—the larger businesses, on which rates impact less significantly.

Self-financing is not a fundamental requirement of our scheme, but the proposal was part of our response—first, because of the framework in which the Executive was considering the issue and, secondly, because a self-financing scheme would provide a degree of certainty, as we would know where the additional burden would fall.

Mr Paterson: Would the 9 per cent differential have an impact on competition between Scottish and English companies? It is not that long ago that some Scottish companies—small and large—were paying three times more in rates. If a new scheme does not address that problem, it may come back and bite us—on the backside.

Gerry Dowds: You may well be right. We are conducting a face-to-face survey among our members on that point, asking whether we should have a separate uniform business rate in Scotland. Early results indicate that our members do not believe the current situation to be fair. England reaped the benefit between 1970 and 1995, when it had no revaluations, whereas we had compulsory revaluations every five years—surely we should be benefiting from that now.

The Convener: Before I sum up, I have one question. If you cannot answer it now, perhaps you will write to us. On page 9 of your submission, you consider the dual-tapered scheme. What percentage of small Scottish businesses would benefit from that scheme? Do you have any idea, or would you prefer to consider the question and then write to us?

Nick Goulding: We have some data on that, but I would rather write to you.

The Convener: That is fine.

We have been discussing the consultation and, like other committee members, I have read the Executive's response. My reading of that response is that the Executive is considering businesses rather than properties, although I may have read it wrong. However, the issue is out to consultation, and things may change.

You spoke about a threshold of six people. I am not sure whether the figure is six or another number and I am not sure whether it refers to full-time equivalents. That kind of detail is important and will come out in the consultation.

I let you speak for longer than I had intended—others are waiting—but I thank you for coming. We would be grateful if you could write to us on the questions that Iain Smith and I raised.

Gerry Dowds: Thank you, convener and committee members. It has been our pleasure being with you today.

The Convener: Okay, comrades. We now welcome a witness from the Federation of Small Businesses. John Downie is the federation's parliamentary officer. He will give a short presentation and then I will open up the meeting for questions. I am sorry that we kept you waiting.

John Downie (Federation of Small Businesses): That is okay. Thank you for giving me the opportunity to give evidence. I propose to say only a few words. Members will have received our draft written response to the Executive; I do not propose to repeat a lot of the detail. The need for a small business rates relief scheme has been accepted by the Executive and the Parliament. During the Local Government Committee's initial inquiry, we had in-depth discussions. The issue is now the detail of a scheme to be based on proposals in the consultation document.

The FSB has long pointed out the flaws in the current rating system. We believe that the current system should be scrapped and replaced with another system. However, we have to be pragmatic. When the Scottish Executive's programme for government was published, it contained no commitment to change the ethos and theory of the rating system. There was not going to be a move from a property-based tax to a business tax.

As you pointed out, convener, the consultation paper relates to businesses, although that is an add-on. The complete ethos and theory of the system is not about to be changed in this parliamentary session. However, we believe that the Local Government Committee should study the matter as part of its investigation into local government finance. We have taken the pragmatic approach of coming up with a rates relief scheme that would help as many small businesses as possible, regardless of whether we felt that that scheme was flawed. We put in our initial proposal two years ago; we put in a revised proposal last year; we gave evidence to the committee; and we now have the Executive's consultation paper. In our submission, we highlight our belief that, although we accept the general principles, the Executive's paper has a number of flaws. Rather than repeating anything more from our submission, I would prefer to answer questions.

The Convener: I am sure that committee members have read all the submissions; they always do. Should certain types of property be excluded from the relief scheme? If so, which ones?

John Downie: I have been asked before about cash machines, which are generally owned by financial institutions. In our submission, we give a list of properties that should be excluded. It includes public sector buildings, which are in a different position from that of private sector properties. It also includes advertising hoardings, telephone masts and aerials. We are aiming the scheme at small properties. The issue of small properties that are owned by large public limited companies has arisen; however, those properties are generally in the more rural and remote areas and, if giving those properties relief meant retaining businesses in those areas as a service to the community and as an income to the local authority, we would accept that the properties should get relief. There is a slight typographical error in our submission: in fact, such properties will be in the minority.

Mr Gibson: The first page of your response to the Executive quotes the following from "Think First, Think Business":

> "The existing rating system should be scrapped in favour of a method of assessment which incorporates the ability to pay. This should be undertaken as part of a complete review of local government finance."

Do you believe that the Executive proposals in any way take into account the ability to pay?

John Downie: No. That issue was touched on in the evidence on small hotels, which are judged on their turnover. The assessment of small tourist businesses and hotels in particular has long been an issue between us and the different assessors and has caused much disagreement over the years.

Mr Gibson: As you will know from the first session of evidence, there was some contention that granting rates relief on property would simply allow landlords to increase rents. The money would therefore go straight to landlords rather than to businesses. Do you have any comments on that?

15:00

John Downie: The majority of small businesses in Scotland are owner-occupier businesses. Your argument was put forward by the Confederation of British Industry Scotland, but the committee did not accept it. I do not think that there is any evidence to back up the argument now.

Mr Gibson: The previous witnesses suggested that only 7 per cent of hotels would benefit under the Executive's proposed scheme. That was a matter of concern. How can the proposals be amended to take into account businesses that are clearly undergoing severe strain?

John Downie: There are a number of ways in which the proposals could be amended. Thresholds could be increased. In Wales, the threshold was increased to £25,000. We would be more than happy to increase the threshold for a large number of businesses. The question is how much money the Executive intends—if the scheme is to be self-financing—to put on to larger businesses. If it intends to deal with the finance indirectly, how much money will it give in business relief? The higher the threshold and the more businesses that are included, the higher the cost.

We see the scheme as the start of a process; it is not the final answer. However, I think that the only way in which the Executive can deal with such businesses is to increase the thresholds. Businesses that are experiencing trading difficulties and whose turnover is down can already make a rating appeal to the local authority under the conditions that are set out in the current rating system.

Mr McMahon: The Scottish Executive has proposed a relief scheme with many more bands than the one that you suggested. The bands go from 50 per cent down to 4 per cent. Would you be content with a multi-banded scheme?

John Downie: That is not our ideal solution—we believe that it would create problems. I think that the Executive wanted to take many of the committee's comments on board and tapered the scheme so that there would be fewer adjustments between the thresholds. That would reduce the number of appeals because the margins of difference and benefits would be small. Businesses would not therefore appeal between the margins in those thresholds.

Mr McMahon: Would the suggestion made by the Forum of Private Business to taper the scheme but to take into account other external indicators add to the determination in relation to the tapering?

John Downie: The rates system is complicated. There will be problems if a property-based system is mixed with a business tax system. We are not sure that the thresholds would work. The example of a small corner shop was cited. A small corner shop in Dumbarton Road, Glasgow, with a turnover of £1 million has low margins, but high staff levels because of the number of hours that such shops are open and the service that they provide. Such shops are labour-intensive. They, too, would lose out under that proposal. I do not think that the margins particularly affect the scheme. We are happy to go with the Executive's proposal but would like it to be slightly simpler.

Mr McMahon: So the idea of a tapering system is not the problem; the problem is the criteria that are applied.

John Downie: Yes. A tapering system is not the issue—the criteria are.

Iain Smith: You seem to reject any suggestion that there should be additional measures—such as taking into account turnover or the number of employees—to ensure that the scheme is targeted at genuinely small businesses. You seem to reject those in favour of a simple rateable value.

John Downie: That was always our proposal. We want a scheme that can be simply delivered and that is focused on the current laws and the methodology of the reigning system. We feel that mixing the tax and the property-based systems will cause more complications and will be difficult to administer and to assess.

Iain Smith: You would like a different form of business taxation, though.

John Downie: Yes, of course. It would be ideal if there were another form of local business taxation, but I do not think that that will happen in this session of the Scottish Parliament.

Iain Smith: I am sure that the committee will be interested in your views on what form that taxation should take—[*Interruption*.]

The Convener: We will have to abandon ship, as the fire alarm has been set off.

Mr Paterson: Perhaps the reason for the fire alarm is that I did not declare an interest. I have properties that may benefit from a different scheme.

The Convener: We will have to leave the building.

15:05

Meeting suspended.

15:18

On resuming—

The Convener: I do not know what happened there, but obviously there was no fire.

Gil Paterson was about to declare an interest and ask a stunning question.

Mr Paterson: I should declare that I still own Gil's Motor Factors. Each of the premises pays rates and I might benefit from any relevant scheme that comes into play.

Mr Gibson: I should point out that all witnesses at the Local Government Committee get a special 10 per cent discount.

Mr Paterson: Of course.

I want to ask the same question that I asked the Forum of Private Business. Is it tenable for the Executive to expect the scheme to be self-financing when the way in which the poundage was implemented means that businesses in Scotland pay 9 per cent more than businesses south of the border?

John Downie: When the Executive proposed that the scheme should be self-financing, we put forward the view that what matters to our members is what they pay in their rates bills.

However, we were concerned by the fact that the UBR that operates in Scotland is different from that which operates in England. That would be an issue in any self-financing scheme. In an ideal world, we would like the business rate to be the same in Scotland as it is in England. The question of whether we should have a separate Scottish UBR is a discussion that the Scottish Parliament should have with Scottish business. There is nothing to say that Scotland could not have a UBR that is less than that south of the border, but that is a political decision that would have to be taken by the Scottish Parliament. At the moment, however, the discrepancy causes problems and we would like the UBR to be equalised as soon as possible.

Mr Keith Harding (Mid Scotland and Fife) (Con): Your presentation mentioned a rateable value of £10,000. I know from experience in Stirling that no hotel or public house would have a lower rateable value than that. Indeed, neither would many private nurseries, which are struggling at the moment, because of the space that they need. Given that fact, do you think that your proposal is unfair?

John Downie: It is not unfair. We suggested the figure of £10,000 as a limit, but as I said, we would be happy if the Executive increased that to £25,000. However, we must be realistic when we consider how much money is likely to be invested in a rates relief scheme. Seventy per cent of businesses in Scotland have small properties that have a rateable value of less than £10,000. In an ideal world, we would like to help every business in Scotland, but we cannot do that.

I agree that other issues are important. Market forces play a part particularly, for example, in town centres such as Glasgow's and Stirling's. If a business is in such a location, it must consider its occupancy costs. I accept that businesses in many town centres will not benefit, but businesses in such town centres should ask themselves whether that is the best location for their business and whether it might be better for them if they were slightly out of town. We should remember that businesses that want to be in town centres and to charge town-centre prices—which increases turnover and profit—make that decision on a commercial basis. Market forces play a part in the rating system, as does the size of the property.

Mr Harding: That is true, but there is a limit to how much a private nursery, for example, can charge. However, because of the nature of such a business, it would require a lot of space. Your proposal would not help such businesses.

John Downie: It would help the majority of small businesses in Scotland, but I accept that there will be anomalies. We must accept that we will never produce a scheme that is fair to 100 per cent of businesses. The current rating system is not—there are thresholds throughout and people pay differing taxation rates depending on what they earn. Many people would say that unfairness is inherent in such a system.

Any system will contain anomalies. It is for the committee to decide whether to recommend to the Scottish Executive that the threshold should be raised. We have come at the matter from a practical point of view. We have suggested a system that will use the money that is available to help as many small businesses as possible. It is not possible to help 100 per cent of small businesses in Scotland.

Mr Harding: Is not the problem that we have concentrated too much on rateable values instead of concentrating on the profitability of businesses, and the size of their turnover and so on when assessing rates?

John Downie: We would like a scheme that is based on the ability to pay. That would take turnover into account, which has been taken into account in schemes before. Profitability is the key factor, as Keith Harding mentioned, and that is what we would like to concentrate on. However, I do not think that that is on the Executive's agenda at the moment, so we will have to work within the current system.

Mr Harding: Your submission ends by saying that you would like certain proposals to be adopted. I do not understand the thinking behind the proposal that automated teller machines should be excluded from a rate relief scheme

"unless they are within a rural postcode".

Why should rural automated teller machines not be excluded?

John Downie: Rural automated teller machines provide a service to businesses, tourists and local people in such areas. We would like such a facility to be available in rural areas. At the weekend, I was up by Loch Tay and saw a mobile Royal Bank of Scotland van. There is much less service provision in rural areas than in urban areas, and retaining private limited companies with businesses in small properties in those areas will retain jobs and services. Automated teller machines fall into such a category; their costs within a relief scheme would not be significant, and they provide a service to which people should have access.

Mr Harding: I have read your submission. You say that ATMs should be taxed in rural areas and not in urban areas.

John Downie: No. What we are saying is that ATMs should be excluded from relief in urban areas, but should receive relief in rural areas. I am sorry if the submission does not make that clear.

Dr Sylvia Jackson (Stirling) (Lab): Your main proposal is to raise the threshold for rates relief. You said that although the Executive's proposal is a reasonable start—and an improvement on the existing scheme—it is not the ideal solution. How would you make the transition from the Executive's scheme to your preferred scheme? I assume that any such scheme would be linked to business turnover, which is the big issue.

John Downie: Well, it is an issue. However, we can improve the Executive's scheme, without changing the ethos of the rating system, by raising the threshold. Such a measure would help more businesses of the kind that was highlighted by Keith Harding, and more rural, tourist and city-centre businesses. Including the business turnover aspect in any property-based relief scheme would only cause confusion and would not be simple to administer or deliver. Currently, we have a simple system in which the assessors make a valuation, which the business has the right to appeal against; however, from a practical economic perspective, the majority of small businesses that occupy properties that have a rateable value of £10,000 or below do not appeal against valuation decisions. At that level, they do not hire professional surveyors; instead, they tend to do it themselves. However, if the threshold were increased to £25,000, we could taper the relief scheme up to that level and give relief to many more businesses. However, as I said, we do not recommend mixing property tax and business tax systems.

Dr Jackson: So, will there have to be a completely different system?

John Downie: Yes. In an ideal world, we would want a completely different system of business taxation.

The Convener: As we have exhausted all the questions, I thank John Downie for his evidence.

I want to sum up a couple of points. When I asked about certain properties that would be excluded, you suggested public sector buildings and telecommunications masts—I am not going to say what I think of the latter, but I do not think that they should get relief from anything. However, that is a personal comment. Kenny Gibson raised the complex issue of the ability to pay, which is something that the Executive has obviously not considered. Furthermore, as was mentioned, you think that the threshold should be raised. I thank the witness for his contribution. We will be in touch again, if necessary.

Okay comrades. We move now to the Confederation of British Industry Scotland. We have Matthew Farrow, who is head of policy for CBI Scotland and Robert Kilgour, who is the chief executive officer of CamVista.com. I thank the witnesses for coming to give evidence. Our usual procedure is to start with a presentation. I will then open the meeting up for questions.

15:30

Matthew Farrow (Confederation of British Industry Scotland): I will speak briefly. Robert Kilgour will then say one or two words from his perspective as a practising business person. The issue is one that the committee has looked at for some time and the views of the main protagonists are fairly well known. In my opening remarks, I will reinforce three important points that formed a key part of our written evidence.

First, we believe that it is wrong to load, as the Executive plans to do, the cost of the scheme on to all the medium and large firms. Those firms will not get the relief. Secondly, the scheme is devised as a fairly blunt instrument. Many of the firms that will be eligible for it are not the sort of firms that are going to play a big role in the particularly important area of job creation. Thirdly, the scheme as planned will not do a lot for the minority of growth firms in Scotland. We need more of those firms because they offer real job creation and growth potential.

The first point is one that is made not just by CBI Scotland; it is shared by other business bodies such as the Scottish Council for Development and Industry and the Scottish Chambers of Commerce. Business is already highly taxed and the tax burden on Scottish business is growing. We heard this afternoon that the Scottish business-rate poundage is higher than the English business-rate poundage. We all know that even the largest firms are not immune to those cost pressures. We have seen that demonstrated starkly in recent weeks.

In addition to our concerns about the largest firms, the medium firms are a particular source of concern. They are particularly vulnerable and are the last sort of firms on which the Executive should be looking to place additional burdens. Medium firms, and certainly those in our membership that we speak to, are often in more exposed markets. They are more likely to export and more likely to face wider competitive pressures. In terms of regulation, they get the worst of both worlds. They do not have the resources of some of the larger firms, which make it easier for large firms to deal with regulation. However, the medium firms do not benefit from the sort of reliefs from new regulations that benefit many of the smallest firms. They are therefore caught both ways.

The same research that suggested that the smallest firms face higher rates bills also made the interesting point that medium firms have lower profit margins than the smallest firms. Smaller firms have higher average profit margins than do medium and large firms. Our CBI Scotland survey that compared medium firms of between 25 and

50 employees with the smallest firms of perhaps five or 10 employees found that the medium firms are expecting lower orders over the next year, their investment intentions are lower, their profit margins are lower and their general optimism about the business situation is lower. This is not the right time for ministers to be loading additional costs on to medium and large firms, and particularly on to the vulnerable medium firms.

The second point is that the scheme is a blunt instrument. The Department of the Environment's research from 1995, which is quoted by everyone, is clear. It sends a message that the business rate burden is a higher burden for some, but not all, very small firms. Approximately 60 per cent of firms that have a turnover of £50,000 to £100,000 pay less than 2 per cent of their turnover in business rates. That means that not all very small firms—although certainly some do—face a higher burden.

Our concern is that few of those firms are likely to be the sort of firms that are looking to grow and expand. About two thirds of very small firms have been around for more than five years. They are not firms that are trying to grow and develop—they are what could be termed lifestyle firms. That means that they are important, but they are not the source of future jobs. The most recent research found that smaller firms are less likely to expand than are larger firms, and that they are less likely to create new jobs. Our survey work showed that the very smallest firms—those that have one to 10 employees—are creating fewer jobs than those in the vulnerable medium category of 11 to 25 employees.

The scheme will put cash back into the pockets of very small businesses. We are interested in looking at the economy as a whole. Those businesses are not particularly important in tackling some of Scotland's real problems in the areas of low job creation rates and low productivity.

The third and final point is that, if we see the role of SMEs in job growth and innovation as the most important contribution that they can make to Scotland—that is CBI Scotland's view—it is important to focus on what we can do for growing firms. All the research that we have examined—talking to our members backs it up—suggests that only a small proportion of small firms have the aspiration and potential to grow substantially. The most recent research suggests that about one third to two thirds of all new jobs are created by a small proportion of fast-growth firms. Our concern is that rates relief will not do much for those firms, because they tend to grow quickly through the very low turnover levels where rates become a significant issue. However, they still face serious difficulties with red tape and so on.

Robert Kilgour (Confederation of British Industry Scotland): My personal view is that it is not the task or role of Government—whether that is European, Westminster, Scottish or local government—to create jobs and prosperity. Government should work towards creating the right climate for those in business to deliver the jobs and prosperity that are essential in giving the Government the money that it needs to fund our essential public services.

We all want to see more smaller firms grow, but rates relief will go mostly to the very smallest firms, many of which—as Matthew Farrow mentioned—are lifestyle businesses without the ambition to grow, thereby creating jobs and wealth. We need more targeted schemes designed to help those firms that want to grow. I agree with Matthew Farrow that the worst element is the minister's intention to get medium and large firms to pay for the scheme through a proposed £59 million hike in rates. That is unacceptable. Those firms have already recently had to face a higher increase than firms that fall below the £10,000 threshold. At the moment, medium-sized firms are under a lot of pressure and that hike is the last thing that they need; they need help, rather than being beaten over the head by an extra increase.

The Convener: Do you accept the principle of a rates relief scheme for small businesses?

Matthew Farrow: We do not see it as a priority. Our fundamental objection to the proposed scheme is that it will load costs on to medium and larger firms. This is the wrong time to do that and it would hit such firms very hard. We would be more relaxed about the scheme if the Executive was saying that the scheme was important and that it would fund it—as it would fund any scheme that supported business in other ways. However, if the Executive is saying that it has the money to spend on such a scheme and that its objective is to promote job creation in an economy that grows firms and creates jobs and innovation, we suggest that the scheme is not the best way of achieving that objective.

The scheme would give some cash back to many small firms, some of which would appreciate it, while others that are not hard-pressed or in dire straits would not. Most of those small firms would not use that cash to grow anyway. If the Executive has that sort of money to spend, we would prefer it to be spent on targeted schemes for faster growing firms, which face many hurdles.

The Convener: I am not clear whether you are in favour of the principle, perhaps with built-in conditions. I understand your desire for the cost not to be passed on to medium and larger firms, but that is not the name of the game—that will not happen. If we accept that the scheme will be self-financing, would you still be unhappy about some form of rates relief for small businesses?

Robert Kilgour: If the scheme is self-financing, it will hit jobs and investment in medium-sized businesses—that is a fact. That will happen.

The Convener: You have still not answered my question. I want to know whether you think that, in principle, rates relief should be given for small businesses.

Matthew Farrow: Robert Kilgour is making the point that we do not accept that the scheme will be self-financing. Our job is to lobby MSPs and ministers to try to get them to rethink the scheme. A lot of business organisations take our view.

The rates relief scheme is only a good thing in principle if the Executive has sufficient funds to do all the other things that are more important in helping small businesses grow. If the Executive were to say that it would help small businesses grow in various ways and that it had additional funds to do that, we would say that that was fair enough and that small businesses are a deserving case. However, we think that the priority ought to be to grow firms. If the Executive had the money to do that, it would be a better source of support.

Mr McMahon: I will preface my question by saying that today is not the first time that we have considered this issue, nor is it the first time that we have taken evidence on the issue from the CBI. The first time that we took evidence from the CBI, I was disappointed at what seemed to be a "Man, mind thyself" attitude. Unfortunately, it sounds as if that has not gone away—although the delivery has been less strident than previously.

Given that there will be a rates relief system, do you agree that certain types of property should be entirely excluded from it? If so, what type of property should be excluded?

Matthew Farrow: Because we think that such a scheme is not a priority, we have not looked in detail at the various fairly technical issues that other witnesses have examined this afternoon. As a result, we have not taken a view on whether specific properties should be excluded from such a scheme. If you could give some examples, I would try to give an answer.

Mr McMahon: The examples that I gave earlier were advertising hoardings and telecommunications masts; obviously, those are parts of bigger companies and do not exist in their own right. Big financial institutions are involved in those types of facilities, but the Executive intends to exclude them. Do you think that that is fair?

Matthew Farrow: The committee has discussed with other witnesses how to design a scheme that would give relief to properties of a particular size without picking up things such as telecommunications masts or outlets of large firms. I reiterate that we think that a relief scheme will hit medium and large businesses, but if such a scheme was introduced, we certainly would not seek special treatment for small outlets of larger companies.

Mr Paterson: On the second-last page of your submission you say:

> "The business tax burden is already too high. Scottish firms are paying £500m more in tax each year than they were in 1996-97."

Will you quantify that a little bit for me?

Matthew Farrow: Which part?

Mr Paterson: The part that talks about Scottish firms paying £500 million more in tax each year than they were in 1996-97.

Matthew Farrow: Do you want a detailed breakdown?

Mr Paterson: Yes. Where do the figures come from?

Matthew Farrow: They come from an analysis of all the budgets since the current chancellor's first budget in 1997. I am more than happy to provide very detailed figures if that would be helpful. Our economists have looked at the various new measures in all those budgets and how they affect the business tax burden. The conclusion that we have drawn—no one has challenged the figures, which are open for anyone to look at—is that the amount that Scottish business as a whole pays in tax is about £0.5 billion more each year than it was in 1996-97.

Mr Paterson: I asked other witnesses about the fact that Scottish business rates are 9 per cent higher because of the poundage that is set by the Government. Does the CBI have an opinion on that and on how it affects its members in Scotland?

Matthew Farrow: We certainly have an opinion. You made the point earlier that, in the early 1990s, Scottish businesses of all sizes were paying a much higher rates bill than their counterparts down south. One of the CBI's campaigns in the early 1990s tried to get the then Conservative Government to bring the two rate levels into line. When that happened in 1995, it was a big achievement for us, so we were deeply disappointed that that link was then broken post-devolution. As you say, the result is that Scottish businesses are paying a higher rate poundage than businesses down south.

Mr Paterson: Have you surveyed your members to find out the impact of that, or do you intend to do so? Can you give the committee any information on that?

15:45

Matthew Farrow: We have not surveyed businesses specifically on their differential poundage and the effect that that has. However, all surveys of our members pick up a rising tax burden and rising red tape. That is one of the concerns that our members have. One of the reasons why our members are so concerned about the Executive's desire to load the cost on to medium and large business is that they thought that devolution was supposed to help businesses in Scotland. Instead, the first thing that has happened is that Scottish business rates have gone up by 9 per cent compared with rates in England. The second thing is that, albeit for understandable reasons, a scheme is being introduced to help a very small sector of the business population; that scheme will push business rates even higher.

Mr Gibson: In the paragraph below the one that Gil Paterson referred to, your submission states:

"Business rates … are too high. In Scotland, business rates amount to about 1.3% of GDP."

It goes on to say that in France, Ireland and Germany the equivalent figure is between a quarter and a third of that. What is the figure south of the border?

Matthew Farrow: It is pretty similar to the Scottish figure. Perhaps it is slightly lower, because the rate poundage is lower, but it is pretty similar.

Mr Gibson: About 1.1 or 1.2 per cent?

Matthew Farrow: I would guess so, but I do not have the figures to hand. It is a UK concern, as opposed to a purely Scottish one.

Mr Gibson: What has been the impact of that higher business rate as a share of gross domestic product on Scottish competitiveness and on jobs?

Matthew Farrow: That is hard to quantify, because businesses are affected by many different factors. As I said, regulation is a major concern of almost all our members at the moment. The business tax burden has been growing. Our surveys on manufacturing in Scotland have been pretty bleak for several quarters now, and employment is almost always estimated to decline. I would not be at all surprised if such factors were behind some of those findings.

Mr Gibson: Would not the value of the pound have a greater impact on manufacturing exports than the level of business taxation?

Matthew Farrow: All those things come together. The appreciation of sterling has been a major concern for Scottish manufacturers, but so have the rising business tax burden and regulation.

Mr Gibson: You mentioned lifestyle firms and made it quite clear that, in your view, such firms would be unlikely to increase employment. I understand what you are saying, but surely the problem for many lifestyle firms lies not in increasing employment, but in survival. Do you accept that, if those businesspeople got relief from the Executive, the likelihood of their being able to survive and possibly employ someone else, particularly in small and vulnerable rural communities, would be enhanced?

Matthew Farrow: There are two answers to that question. The Executive has some specific rates relief options for rural communities and part of the consultation is about extending those options. We have always supported those very specialised rates relief schemes. For example, we supported the argument that small businesses should get additional transitional relief to help smooth out the valuations. There are specific cases where rates relief is well targeted. For businesses that have been affected by the foot-and-mouth outbreak, for example, it is the right tool to use.

However, we should try to stand back and think about the economy as a whole, our low job-creation record and where our priorities should lie. We think that the priority must be the growth firms that create between a third and two thirds of all new jobs. The proposed rates relief scheme might help on the margins. Some very small businesses will use that cashback to create an additional job, but the research evidence that we have seen, together with anecdotal evidence, suggests that the scheme will not lead to a great increase in job creation.

Mr Gibson: Following on from what the convener asked you, I think that you are saying, basically, that the scheme should be abandoned. If the Executive were to finance the scheme, however, would you still want it to be abandoned, because you think that the money could be targeted elsewhere, or would you support it if there was no cost to existing small and medium enterprises or larger businesses?

Robert Kilgour: Ideally, we would like the £59 million, or whatever money is available, to be targeted on some other areas, and we are happy to talk about those. If that is not to be the case, the very least that we would look for is for the scheme to be paid for from Government funds. As I said, job creation and future investment decisions in the medium-sized sector will be hit, and that is surely not a good thing for business—nor, I would have thought, for the Scottish Parliament.

Dr Sylvia Jackson: I am trying to look at the bigger picture from your position. It strikes me that in order to become a medium-sized firm, you most likely have to start as a small firm. I return to Trish Godman's point. The submission from the

Federation of Small Businesses talked about the inequity of the business rates system. It said:

"small businesses pay on average 10 times more than larger businesses in terms of profit and turnover. As a percentage of overheads, the impact of NDR creates a significant discrepancy between small and large businesses. On average, a small business' rates bill is 13.7% of its overheads, compared to a large business whose rate bill is approximately only 3% of its overheads."

Do you accept that there is inequity in the system?

Matthew Farrow: I have two comments to make. In a second, I will ask Robert Kilgour to talk about fast-growing businesses, and whether they see rates as a major issue.

You asked whether there is inequity in the system. Any form of fixed cost will be more of a burden for small firms. The research from the Department of the Environment—which has already been mentioned and which is what everyone, including the Executive, quotes—says that wage costs are a much bigger proportion of small firms' turnovers than larger firms' turnovers. So, in a sense, it is not a question about rates.

Only if you are a very small firm—research shows that that means firms that turn over less than £100,000 a year—do rates, as well as wages costs and other fixed costs, start to push up beyond 1 or 2 per cent of turnover. Even then, according to the same research, 60 per cent of businesses that turn over between £50,000 and £100,000 a year pay less than 2 per cent of their turnover in business rates.

We question the perception of many people that every small business in Scotland faces a major challenge to its survival because of the business rates system, because the evidence does not back that up. You could say that we should be trying to cut all fixed costs for small firms; for example, the minimum wage should not apply to small firms, because inherently, it is a bigger proportion of their overheads.

Having said all that, is there a case for giving relief to the smallest firms? There is a case, but it is low down in our priorities. If our concern is job creation, we have to look at what is holding back businesses such as CamVista Ltd. I will ask Robert Kilgour to say a brief word on that, but relief is considerably further down our list of priorities.

Robert Kilgour: As I understand it, smaller businesses have an opportunity to apply, as a committee member mentioned earlier, for relief from the local council concerned. Rates, as they stand at the moment, are a property tax; they are not based on turnover, ability to pay, profit or whatever. You would need to overhaul the whole system if they were to be based on those factors. Tinkering with the system in the manner that has been suggested would not be helpful.

From a personal point of view, CamVista started below the £10,000 rate, but we are now above it. We have two properties on one site with rateable values of approximately £15,000. In early 1999, we were in a property with a rateable value of approximately £3,000; now, we are in premises with a rateable value of £15,000. Because of the time scale, that has not been a huge drain on us, or a huge deterrent. A bigger deterrent has been getting skilled people to come to Fife. Getting people to come up from England to Edinburgh is difficult enough, but getting them to come across to Fife is a bigger hurdle, which we have been trying to get across.

Iain Smith: I should defend Fife. It is a wonderful place.

Robert Kilgour: I say that as a Fifer who was born and brought up in Kirkcaldy, but it is a fact. It is difficult enough getting people from Edinburgh to come to Fife, let alone people from London.

Iain Smith: It is a fine place, and it is easy to get there. I travel every day, in the other direction, to come here.

I have a couple of questions. First, I understand that you do not support the scheme, or that you think it is unnecessary. However, if the scheme goes ahead, should it be based on a simple rateable value scheme or should other factors, such as those suggested by the Executive—which include consideration of turnover or employment levels—be taken into account to ensure that the scheme is targeted at smaller businesses?

Robert Kilgour: If you are determined to go ahead with a self-financing scheme, which will put the burden on medium and larger businesses, it would be helpful if it were to be based on turnover or profit.

My family is involved in another company—my brother is managing director of it—that employs only 14 people, while CamVista employs about 18 people. The Fife Warehousing Co, which is based in Kirkcaldy, employs 14 people and has properties with a rateable value of £500,000; it has rates payable of £232,000 a year. My brother told me about the rates increase of 2.62 per cent that he faced this year, while the rates of smaller businesses—those with a rateable value of less than £10,000—have increased by 0.45 per cent. In his view, that sends a message to him about a trend and puts him under warning. He will look twice at any future job creation or investment situations that he may come across. Surely that is not a good message to send out.

Iain Smith: If you were to consider implementing a relief scheme for rates, how would you target that at the growing businesses to which you make reference in your submission?

Matthew Farrow: We would not use a rating system to do that, because, as Robert Kilgour said, most businesses that are looking to grow substantially do not find, and do not tell us, that the rate burden at the beginning is the major factor. Growing businesses bring big issues to me, such as cash flow, which is always an issue for businesses. The CBI fought hard for many years to get the chancellor to reinstate capital allowances for small businesses—not for larger businesses; we never lobbied for that. The other big issues include access to finance, particularly venture capital, and debt and equity. There are problems with the tax system, which is not working particularly well and on which we are lobbying. There are steps that Scottish Enterprise could take to examine those problems more closely.

Red tape is an issue for all businesses, from the largest to the smallest. It is a particular problem for growing businesses because, as a business grows, it tends to become more complex anyway. One can reach a difficult stage where the person who is doing all the work and managing the whole business cannot do so any more, and questions arise around how they might be able to bring in people from outside, or inside, the firm to create a management team.

Robert Kilgour: Personally, I find that red tape is a disincentive to growing a business and taking the next step.

Matthew Farrow: Many regulations have been introduced that include exemptions for very small firms. The CBI has sometimes been one of the bodies that has argued for those exemptions. For example, all firms with fewer than 15 employees are exempt, at present, from the provisions of the Disability Discrimination Act 1995, which can be fairly onerous for a smaller firm. The Employment Relations Act 1999 exempts firms with fewer than 20 employees from several of its union recognition provisions.

We are concerned that, as a business grows, it inherently starts to attract more and more regulation. We would not like the Executive to use its resources for schemes such as a rates relief scheme, should it decide to implement such a scheme. We think that a better use of resources would be targeted help to firms that are growing. The Executive could say, "You're going to grow. We are pleased about that. You are starting to hit these new regulations and will have a lot of new problems, which larger firms find it easier to cope with. Here is some specialist support and help"—such as grants perhaps—"to help you get through the minefield of growth." That approach would give Scotland a bigger payback in relation to the potential for job creation.

Iain Smith: I have a final question. The Scottish Executive is suggesting that it does not have those resources—that is why it is proposing a self-financing scheme. From where, within the Scottish block, might the resources be found, either for the rates relief scheme or for the other proposals that you are making? Does the CBI have any suggestions about that?

Matthew Farrow: No, we do not. However, my first reaction would be to say that if the Executive has not got the money, it should not pursue such schemes. It should not approach the business community saying, "There's something over here that we'd like to do. Can you pay for it?"

CBI members raise concerns with me, such as whether such approaches are the thin end of the wedge, as business rates are the area of business taxation that Scottish ministers can easily adjust up or down. We have already seen differences between England and Scotland. The next time that the Executive needs to fund an initiative, it will again push uniform business rate up a little for all firms.

Businesspeople feel that it seems to be possible for the Executive to find money from within the block to fund schemes that it identifies as a priority for future years. The Scottish block is growing because the spending plans are going up and up. If it thinks that growing businesses are a priority, appropriate schemes should be part of that increased spending.

Robert Kilgour: I will make two quick points. Red tape has been mentioned, and I will not go over that ground again. Planning issues can also be a problem for small firms that are growing.

I have a couple of suggestions to make. I know that the Scottish Executive plans to consider regional selective assistance. Another possibility is local employment grants or some kind of soft loan system. There was an article in *Business a.m.* about a successful scheme that German local government has set up, which is creating jobs and helping smaller firms throughout Germany. Additionally, in some regions, low-rent, start-up office centres and business units have been established in partnership with the LECs. As Matthew Farrow mentioned, there is also the possibility of improving the advice services that are available locally, either through the LECs or directly. There are many other ways in which jobs could be created and investment could be encouraged without putting another burden on medium businesses.

16:00

Mr McMahon: I would like more information on the barriers to growth. You identify several in bullet points in your submission. The final two are

"The inherent difficulty in moving from one owner/manager to a management team"

and

"Cashflow constraints as firms seek to invest".

Earlier, you said that it is for businesses to invest, not for the Government to create jobs; however, you also say that it is not for the business community to redistribute what is already within it, but for the Government to invest more. Is there no inconsistency there?

The Government has schemes for business start-ups and pump-priming in that way, and it has the RSA and pump-priming in that way. Is there nothing that the business community above the small business community can contribute to the growth in businesses at the lower level?

Robert Kilgour: We are already contributing through the rates that we pay.

Mr McMahon: Exactly. I am saying that that should continue and that there should be a redistribution of funds within the business community. You have argued that there should be no Government involvement in this, and that it is for the business community to generate jobs. How can the business community generate jobs if it says, "This is mine, and you are not going to have it because I am already a big business and you are not"?

Robert Kilgour: No. I said that it is up to all levels of government to create the right climate. That includes pump-priming and helping to provide advice locally, with grants and soft loans provided locally. Medium businesses are paying a higher rate of tax than smaller businesses. If relief is to be introduced, the Scottish Executive should fund it, as it thinks that it is such a good scheme. If the Executive insists on putting the burden on medium and larger businesses, there should be some kind of link to profit, so that it will not be damaging and cause the loss of jobs and potential investment in Scotland.

Mr McMahon: Is that not an interpretation of what you consider to be the sharing of the burden? At present, we have information to indicate that the burden is on the smaller businesses. Surely it is not about where the burden should lie, but about sharing the burden. You are saying that you do not want the medium and large enterprises to share the burden.

Robert Kilgour: It does not necessarily follow that medium businesses are hugely profitable, and that rates do not form a large part of their bill. In the warehousing business that employs 14 people, rates are the largest cost—slightly larger even than staff costs.

Mr McMahon: Would not a system that was tapered to take account of other criteria, such as turnover, profitability, the number of employees and national insurance contributions, allow determination of which companies were profitable and most able to take on the burden?

Matthew Farrow: In an ideal world, we would be able to do that. I accept that there is a balance to be struck. Collectively, business pays a large tax burden, some of which goes back to particular business. Much of it goes into the public purse to fund health, education and so on. We do not accept that medium and large firms are getting away scot-free. By far the bulk of the £500 million a year extra that Scottish business is paying comes from medium and larger businesses. The proportion that medium and larger businesses pay has been stacked higher in recent years.

We have to be careful. Politicians will always assume that medium and larger businesses have more resources and can afford to pay a little more. From the figures that I gave earlier—I will write to the committee with details of our evidence—it seems that medium firms are under much more pressure. According to the 1995 report, their profit margins are lower than those of very small firms. They are often exporters. They are hit by a lot of new regulation. Our concern is that this is not the right time to be raising their rates bills to help some very small firms, some of which do not need help. Other very small firms may need help, but there are other ways to do that.

Mr Harding: I return to Gil Paterson's initial question and take up what Michael McMahon just said. How much of the £500 million a year extra over the past five years to which you refer is attributable to new companies and the huge shopping centres that have opened in that time? How much of it has fallen on businesses that existed in 1996-97? What has the increase been for those businesses?

Matthew Farrow: We have not made that calculation. It would be difficult to carry out that research. It is fair to say that, in general, the increased tax burden has fallen mostly on existing businesses, partly because it has fallen mostly on medium and larger businesses. For example, the way in which businesses pay corporation tax has been reshaped so that the payment is brought forward by about six months—that is a big additional tax bill for firms. The chancellor proposed to do that for medium and larger firms. The CBI lobbied hard to have medium firms excluded from that change, so in that case the burden fell on larger firms. In general, most of the additional burden has fallen on existing businesses, particularly medium and larger businesses, but it would be difficult to do the detailed analysis that you are looking for.

Mr Harding: But the increase that you describe is nothing like the percentage increase in council tax.

Matthew Farrow: I do not have the figures.

Mr Harding: Until this year, we had a UBR that increased at slightly above inflation for the past three or four years.

Matthew Farrow: The UBR increase is only one part of the rising tax burden. Most of that burden has come from other tax measures, most of which are reserved.

Mr Harding: I am sorry. I misunderstood your submission. I thought that you were saying that the rates burden had increased by £500 million.

Matthew Farrow: No, it is the overall tax burden.

The Convener: I think that we have exhausted the quick questions.

You say that priority should be given to growing firms. As Sylvia Jackson said, rate relief may enable small firms to grow. That may be a good argument.

Your submission says that you intend to examine reform of the planning system and Robert Kilgour mentioned that. It is for the Transport and the Environment Committee to consider that matter, but this committee would be interested in seeing the proposals that you produce as I can see where the subject links with what you have said this afternoon.

I thank you for coming and apologise for keeping you waiting. We are running very much behind time.

Comrades, we now welcome witnesses from the Scottish Assessors Association. I am sorry that you have been kept waiting. John Cardwell is the association's president and a member of the Lothian valuation joint board. William Johnston is the vice-president of the association and an assessor at Glasgow City Council. I should perhaps declare an interest, as I was a councillor in Glasgow and I live there. I recognise William from the council. Sandy McConochie is secretary of the association and a member of the Grampian valuation joint board.

You have been watching the committee for long enough to know the procedure, so it is over to you. We will ask questions when you finish your statement.

John Cardwell (Scottish Assessors Association): May I clarify one issue? The Executive's consultation paper related to four matters. The first was the general rates relief scheme for small businesses. The other three were farm diversification, provisions for rural rates relief and agricultural exemption. Am I correct to say that we are not talking about those three issues today?

The Convener: That is correct. We are talking about the small business rates relief scheme.

John Cardwell: Thank you. I will give a brief presentation on behalf of the Scottish Assessors Association.

Assessors are independent public officials and practitioners. The committee will understand that it would be incorrect for assessors to give views on policy. We will talk about the implementation of some of the schemes and some other issues that we think may arise.

Will the proposed scheme deal with small businesses or small premises? In the past few months, I have heard arguments for both. Having studied the committee's report, I am aware that the committee thinks that the scheme should deal with small businesses rather than small premises. To do that, it will be necessary to introduce thresholds other than the £10,000 rateable value.

The Executive's paper suggests three qualifications—the turnover that the business in the property generates, the number of employees and the number of properties that the business occupies. All those elements seem eminently sensible. I heard evidence this afternoon about the turnover figure that would be required and how the number of employees would affect the relief. Much research will have to be done to ensure that turnover figures, the number of employees and the number of premises occupied apply generally to small businesses. If criteria must be used, those suggested would form a fair basis.

The Executive's paper suggests that relief that has been granted will not be recalculated during the financial year. Properties can change during a rating year. For example, a property could be substantially altered, improved or added to, or its occupation could change—the property could be occupied by a multinational instead of a small business. If that happened, it is suggested that the rating position would be unaltered until the beginning of the next financial year. The association suggests that that could be perceived as unfair. It might be fairer if the rates liability were recalculated when the change took place.

The exclusion of some properties from the scheme is proposed. That appears to be based on the idea that some properties, such as telecommunications masts and advertising hoardings, are more or less bound to be occupied by large companies and it would be incorrect for them to benefit from a small business rates relief scheme. Some premises could be included, but many would fall at the first hurdle, because if they were occupied by large companies, they would not be entitled to relief. The association suggests that several properties could be added to the list of excluded subjects, such as Automobile Association and RAC points, autotellers—although I accept the point that was made about autotellers in rural areas, which have a distinct function—river gauging stations, contractors' huts, time-share units and bus shelters.

The Executive's paper indicates that the scheme is designed to reflect the effect that business rates have on the profitability—or, in the case of small properties, the lack of profitability—of properties. That means that certain subjects, such as non-profit making charitable subjects and local authority properties, which are in a similar situation to autotellers, should be excluded from the scheme. If the policy line is that small businesses should benefit in terms of profitability, it seems sensible that such properties are not included in any such scheme.

16:15

That concludes our comments on the Executive's paper, but I would like to make two or three general points before I close. The first is whether a rates relief scheme would have an effect on the rents of properties. As has been said, if an occupier pays less rates, they may have to pay more rent. As practitioners, assessors take the view that that type of effect takes some time to work through. It would be hard to demonstrate that a rates relief scheme has had an effect on rental values, as a huge number of factors affect property rents.

Our second point is a practical one. If the scheme is designed to provide rates relief to small businesses, it is important that small businesses receive the relief. There are circumstances in which we can envisage difficulties. We will give an example to illustrate our point. A market hall may be occupied by 20 independent stallkeepers. Each of them is a separate business, as each leases a small piece of the market hall. They may have an arrangement with their landlord to pay a single price for their property costs, including rent, rates, cleaning, security, heating and lighting. The landlord pays the rent and rates, so the landlord would gain from the rates relief scheme rather than the small stallkeepers.

One way around that, if it is legally possible, would be to treat each of the 20 market stalls as a separate entity in the valuation roll—each of them would get its own independent rates bill. I understand from inquiries that we have made that, in some circumstances, even if the properties were shown as separate entities on the valuation roll, the landlord would pay the rates. If a system is to be geared towards small business rates relief, it is important to ensure that small businesses get the relief.

On the collective entities that are shown on the valuation roll, it must be decided whether the threshold for a collective entity is to be £6,000, £8,000 or £10,000. Let us take the example of bus shelters. There are 1,300 bus shelters in Edinburgh, which are occupied by the old Lothian transport company and are shown as a collective entity on the valuation roll with a value of about £100,000. If the scheme did not set a limit on the threshold for large businesses, the bus company could ask that each of the bus shelters be shown as a separate entity and claim rates relief on each one. In that case, the bus company would get the maximum rates relief. If we go down the road of offering relief of that sort, we may be asked to unbundle collective properties, such as bus shelters and time-share properties.

My colleagues and I are pleased to take any questions that members have.

The Convener: Thank you. You have almost answered the question that I was going to ask, which is the same one that I asked CBI Scotland. Despite the fact that there may be difficulties with a rates relief scheme for small businesses, do you believe in principle in such a scheme?

John Cardwell: I must be rather evasive and say that, as an assessor, I should not have a view on policy and whether there should be such a scheme. If the Executive introduces such a scheme, we will do our very best to implement it in accordance with the law.

Iain Smith: I will try to avoid the policy issues. I have a question about the practicality of the scheme. I am not sure how familiar Mr Cardwell is with the Forum of Private Business's proposal, which we discussed earlier, to have a dual-tapered scheme using national insurance contributions and gross business rates. From an assessor's point of view, is that system a practical option?

John Cardwell: I listened to the evidence this afternoon. As I understand it, in such circumstances, assessors would be asked to provide the rateable value for the properties—we could easily do that.

Mr McMahon: You have made clear your concern that the relief scheme should be targeted at small businesses. Will the criteria outlined in paragraph 1.8 of the consultation document achieve that?

John Cardwell: Do you mean the criteria relating to the threshold figures?

Mr McMahon: Yes.

John Cardwell: They could achieve it if they were properly researched. Two examples today surprised me slightly: a corner shop turning over £200,000 a year and a shop in Paisley turning over £1 million a year. If those are the sort of figures being generated, it is important to ensure that the threshold is high enough to ensure that small businesses that work on marginal profits are included in the scheme. If the scheme is to be applied and those are to be the criteria, we need to examine carefully the figures included in the criteria—the turnover figures and the number of people employed—before we put the scheme in place.

Mr Gibson: Your submission states:

> "The Council notes that in practice any increased profitability as a result of rates relief will lead to increased liability for Income Tax, National Insurance and Corporation Tax for the businesses concerned, thus limiting the benefit of the relief to businesses."

It goes on:

> "However, it could equally lead to increased consumption and/or increased indebtedness. The Council considers that, if the scheme is pursued, account should be taken of the increase in yield of the other taxes mentioned above to the benefit of central government in calculating the costs of the scheme that would fall to be funded by other businesses."

Are you saying that, if the Executive asked larger businesses to pay £59 million, which then went to smaller businesses, a significant proportion of that £59 million would find itself with the Westminster Government, having been sucked out of the Scottish economy in VAT and so on? If so, do you have any idea what proportion that would be?

John Cardwell: I am sorry, Mr Gibson, but I think that you were quoting the SVRC paper rather than the paper from the Scottish Assessors Association.

Mr Gibson: Yes, I am. I think we all thought that was the paper because it is the one that we are all sitting here reading. We do not seem to have the other paper. I am sorry about that. I take it that you do not have an opinion on that.

My other question is: are you in a position to say whether the 2000 revaluation has produced any significant regional or sectoral variations in rateable value changes?

Bill Johnston (Scottish Assessors Association): There have been wide variations among different categories of subjects in Scotland. Within those categories—within different locations—there have been wide variations to reflect movements in rental value. A simple example is the Buchanan Street and Argyle Street area in the centre of Glasgow, where the values have almost doubled. However, the values for shops in other parts of Glasgow have gone down. Those local variations apply to shops, offices—all the different categories.

Mr Gibson: Indeed; Mr Cardwell spoke about that last time he was here. Will the Executive proposals exacerbate that situation, dampen it down or will the effect be neutral?

Bill Johnston: I am sorry, but I do not have an opinion on that.

Mr Gibson: I am asking whether the Executive proposals will increase sectoral variations in rateable value.

Bill Johnston: Yes. One of the slight difficulties with the Executive's proposals being based solely on a rateable value of, for example, £10,000, is that although a property in, for example, Inverness town centre might have a value of £10,000, an identical property located in Glasgow might well have a value of £50,000 or £60,000. The Executive's paper does not address that at all; it just considers straight rateable values, which vary widely throughout Scotland for similar types of property.

Mr Gibson: Is that an argument for or against the size of a business's rateable value being the subject of relief as opposed to the other criteria that were mentioned, such as turnover?

Bill Johnston: I can voice only a personal opinion in answer to that question. I must admit that I find great favour in the Executive's proposals—targeting properties based on their rateable value but taking into account the separate criteria that are included in the Executive's paper and other types of properties that we suggest should be excluded from any scheme.

Mr Gibson: Thank you.

I apologise for reading out a section of the wrong paper.

The Convener: That is all right. It has been a long day.

Mr Paterson: On the difference between a rateable value of £10,000 in Inverness and in Glasgow, I assume that the potential for business in Glasgow is substantially different from that in Inverness, so there is an equalisation effect with regard to the profitability of the business. Is not that the case?

Bill Johnston: Yes. Generally speaking, that would be the case, but no doubt certain businesses that are located on the periphery of the city centre in Glasgow would disagree. They may feel that trade is being drawn away from the periphery and moved right to the centre.

Mr Paterson: That is a good point.

John Cardwell: The rateable value is based on the potential rental. The potential rental presumably represents the type of business that occupiers feel they can achieve.

Mr Paterson: Do you agree that certain types of property should be entirely excluded from the rates relief scheme? If so, which types of property should be excluded?

John Cardwell: We said in our evidence that if the decision is that the relief scheme should target small businesses, the properties that should be excluded should be small properties that are occupied by large businesses.

Mr Paterson: You would not want to exclude a particular category of property?

John Cardwell: Telecommunications masts and advertising hoardings are always cited, because there is an expectation that they are occupied by huge companies. I suppose that theoretically they might not be. If the scheme is targeted at small businesses, the criterion should be the nature of the occupier.

Dr Sylvia Jackson: You say in your submission that

"it will be necessary to establish criteria for defining 'small businesses'".

We keep coming back to that time and again. Can you give us any help with that? Which criteria do you think should be used? You mentioned turnover and the number of employees.

John Cardwell: Those two criteria would form a useful basis for establishing the size of a business if the headline criterion was the rateable value and the size had to be below that. All that I said in answer to Mr McMahon was that we would have to be careful to ensure that turnover and number of employees accurately reflect "small businesses". We would need to take independent advice on what a small business is, such as what turnover such a business generates.

Dr Jackson: Are you saying that the definition of "small businesses" ought to be researched in quite a bit of detail to establish it and get it right?

John Cardwell: Before the criteria are put in place, it is essential that the figures are accurate, for two reasons. First, the public perception of fairness will be based on the figures. Secondly, the scheme will be implemented in a bureaucratic manner; it must be. There will be a cut-off line: if the cut-off for relief is a turnover of £250,000, companies with a turnover below that will get relief and those with a turnover above £250,000 will not. It will be as simple as that; there will not be any grey areas. Once the figures are established, they will be set in stone, so it is important that the public see them as fair.

Sandy McConochie (Scottish Assessors Association): That is the point about the paper. It suggests that relief be targeted at small businesses. To some extent, the rateable value of the property to which we then give relief is immaterial. It could be £10,000, £8,000 or £6,000. The principal criterion that needs to be established is how we define a small business.

We heard the example of a small corner shop with a turnover of £1 million a year. That might still be a small business—it might be a one-man business. How we define which businesses will qualify for relief is important. The rateable value could be almost anything.

The Convener: Gil Paterson seems very interested in the idea of a shop with a turnover of £1 million.

Iain Smith: I would like to ask another question about the likelihood of appeals being increased or reduced depending on how the system is tapered. From an assessor's point of view, do you think that the system proposed by the Executive, with 12 different steps, is likely to increase the number of appeals? If so, will that happen because of the number of steps or because of the size of the increase from step to step?

16:30

Sandy McConochie: The timing of the appeals is interesting. One would normally expect appeals to come in immediately following revaluation; currently we have appeals as a result of the 2000 revaluation. The new scheme is scheduled to start in 2002. It may be that ratepayers would attempt to appeal once the scheme is in place, but it is by no means certain either that they would have any right of appeal or that there would be any evidence when the scheme is introduced to justify a reduction in value. Generally speaking, one would expect that, if relief could be obtained if one's rateable value were as little as £500 lower, that might well generate appeals. If someone would not get relief at £10,500 but would get it at £10,000, they might decide to appeal.

The Convener: Should assessors be involved in checking whether a business should receive relief, by checking the turnover or the number of employees, or should that be left to local authority finance departments? Do you see a role for assessors?

John Cardwell: That should certainly be left to directors of finance. The truth of the matter is that if directors of finance are going to grant relief and it is for them to make the decision, they will want to ascertain for themselves whether the facts they have been given are accurate.

The Convener: Do you have any idea what percentage of all Scottish businesses have a rateable value of £25,000 or less?

Sandy McConochie: I do not have those figures at the moment, but I could provide them.

The Convener: That would be helpful.

The question that seems to have emerged from our discussion is "When is a small business not a small business?" Your comments about landlords paying rates were interesting and that is something that we need to address. It was also useful to hear that you feel that any rent increase would not be immediate.

I see that Gil Paterson wants to ask a question. He is definitely going to ask you where that shop is that has a turnover of £1 million.

Mr Paterson: No. I was just wondering whether the piper outside the committee chambers is a small business and whether the witnesses could shut him down. [*Laughter.*]

The Convener: Or shoot him on the way out.

I thank the witnesses very much indeed for coming. I look forward to receiving the information I asked for in my final question. If we need to see you again, we will invite you along.

16:32

Meeting continued in private until 17:07.

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