LOCAL GOVERNMENT COMMITTEE

Tuesday 13 November 2001
(*Afternoon*)

Session 1

£5.00

Produced and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by The Stationery Office Ltd.

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Scottish Parliamentary Corporate Body publications.

CONTENTS

Tuesday 13 November 2001

Col.

ITEMS IN PRIVATE 2355
LOCAL GOVERNMENT FINANCE INQUIRY 2356

LOCAL GOVERNMENT COMMITTEE
29th Meeting 2001, Session 1

CONVENER

*Trish Godman (West Renfrewshire) (Lab)

DEPUTY CONVENER

*Dr Sylvia Jackson (Stirling) (Lab)

COMMITTEE MEMBERS

*Mr Keith Harding (Mid Scotland and Fife) (Con)
*Mr Michael McMahon (Hamilton North and Bellshill) (Lab)
*Tricia Marwick (Mid Scotland and Fife) (SNP)
*Iain Smith (North-East Fife) (LD)
*Ms Sandra White (Glasgow) (SNP)

*attended

WITNESSES

Andrew Clearie (Scottish Executive Finance and Central Services Department)
Matthew Farrow (Confederation of British Industry Scotland)
Geoffrey Johnston (Scottish Chambers of Commerce)
Bob Leitch (Scottish Chambers of Commerce)
Bill Stitt (Scottish Chambers of Commerce)

CLERK TO THE COMMITTEE

Eugene Windsor

SENIOR ASSISTANT CLERK

Irene Fleming

ASSISTANT CLERK

Neil Stewart

LOCATION

Committee Room 1

Scottish Parliament

Local Government Committee

Tuesday 13 November 2001

(*Afternoon*)

[THE CONVENER *opened the meeting at 14:15*]

Items in Private

The Convener (Trish Godman): Comrades, I open the meeting. Unfortunately, I must ask members to agree to take items 3 and 4 on our agenda in private. Item 3 involves consideration of our approach to a draft bill and will include discussion of the merits of proposed witnesses. Item 4 involves consideration of details of witnesses' travel arrangements when they appear before the committee. Do we agree to deal with those items in private?

Members *indicated agreement*.

Local Government Finance Inquiry

The Convener: We now return to our local government finance inquiry. Again, we welcome to the meeting our adviser Rita Hale. Today we will hear from a variety of witnesses, covering a range of issues. Professor Arthur Midwinter is unable to appear before the committee; unfortunately, he has flu. I have slotted him in for next week. Members should be warned that next week's meeting will again be a long one.

Our first witness is from the Confederation of British Industry Scotland. I welcome Matthew Farrow, who has appeared before the committee before and who is head of policy for CBI Scotland. You know the drill: you will give a short presentation, to be followed by questions from members.

Matthew Farrow (Confederation of British Industry Scotland): Good afternoon. I have appeared before the committee before, but never in quite this format or on my own. It feels a bit like being in the dock.

I will make a brief opening statement. Local government finance is a broad subject with a wide range of implications. Some of the written submissions that have been made to the committee contain a lot of detail. Obviously, certain aspects of local government finance are particularly important to businesses. Other issues, although difficult and complex, are not necessarily business issues to the same extent.

The biggest issue for us is business rates and the future of the uniform business rate. We have discussed that issue with the committee before. Our members in Scottish business are strong supporters of the uniform business rate, for three reasons. First, the rate is the same throughout Scotland. Secondly, it has a strong element of predictability, which is particularly important. Businesses tend to know, broadly speaking, what their rates bills will be year on year, which is of great value to them in managing risk and running their businesses. Thirdly, the rate is well understood. It has been in existence for some years and businesses understand and are familiar with the principles on which it is based.

For those reasons it will come as no great surprise that we are opposed to relocalisation. From the evidence that the committee has received, it is clear that various bodies favour that approach. We oppose relocalisation strongly because it is clear to us, from the evidence that the committee has received and from discussion with representatives of other bodies, that local government—quite understandably—sees the relocalisation of business rates as an opportunity to re-examine its gearing and to gain control over another revenue stream.

Obviously, from a business point of view, that sets alarm bells ringing. We are concerned that relocalisation would lead to an increase in business rates, more variation across Scotland and a lack of predictability. Business tax, much of which is levied by Westminster, has risen sharply in the past four years; the Government has hit the business sector hard while holding to its pledges on personal taxation. Moreover, property taxes tend to be more significant to businesses in the UK as a proportion of gross domestic product than to businesses in other European countries.

Many people who support relocalisation will tell you that it will improve relationships between business and local government. We hold the opposite view; we believe that it will probably damage such relationships more than anything else. We can explore that issue further during questions if committee members so desire.

The private finance initiative and public-private partnerships are another issue in which we have an interest; they have obviously become an increasing component of local government activity and local government capital spending. It will come as no surprise that, as a business organisation, the CBI strongly supports the principle of involving the private sector in that sort of capital spend and service provision. PPPs are developing into a range of models that are beginning to be implemented. However, we are still very much in a learning process.

PPPs help local government, if it wishes, to address some of the old problems of public procurement, such as uncertainty about costs, cost overruns and the national and local political vulnerability of capital spending as the economic cycle runs its course. Furthermore, they force everyone to consider the whole-life cost of assets and they encourage innovation in service delivery. The media most often mention the fact that PFI-PPP allows local government to switch spending from capital to revenue, which means that spending can be spread over a longer period and can be used to do things today that might not have been done until later. However, such a benefit is perhaps not as significant to business, although we understand why it might be the main attraction for politicians and the media.

I will leave my opening remarks there, convener. I have touched on a couple of issues that are particularly important to us and I am happy to explore those and other issues.

The Convener: Thank you. Your written submission is mostly concerned with non-domestic rates. You say that the non-domestic rate

"gives business vital protection against unaffordable rate increases"

and

"eases long-range business planning".

What proportion of turnover is represented by non-domestic rate bills? How does that compare with energy bills or borrowing costs?

Matthew Farrow: I cannot answer that question offhand, although I can certainly provide details in writing to the committee. However, I have some figures on local business property taxes as a proportion of GDP, which show how much of the wealth that business creates is taken in business taxes by local government in different countries. The latest figure for the UK—it is a couple of years old now—is 1.8 per cent of GDP, which is higher than the proportion in most European countries. For example, in France, the figure is 0.5 per cent; in the Netherlands, 0.4 per cent; in Germany, 0.3 per cent; and in Ireland, 0.4 per cent. Overall, we think that the issue is significant.

The proportion of turnover represented by non-domestic rates bills will vary a lot according to sector. For example, the proportion will be much smaller in energy-intensive sectors such as the paper industry, whereas the proportion could be much larger in sectors with much lower energy costs. I will find out whether we have any more detailed data that we could supply to the committee.

The Convener: That would be helpful. I will now open the floor to questions from members.

Ms Sandra White (Glasgow) (SNP): Your submission mentions that the CBI strongly supports the uniform business rate. Is the size of the non-domestic rate bill one of the most important factors for the location of businesses or are other factors taken into consideration?

Matthew Farrow: It is one of the factors. Different businesses consider different issues to be key. Transport links are often considered important. Skills and local skills shortages are also a factor. Non-domestic rates are not necessarily the most important issue for all businesses, but they can be for some.

However, margins have been squeezed tighter in almost all business sectors in recent years. At present, the business situation is not good. Manufacturing is in recession. The service sector is just about holding on, but the outlook is not positive. For several years, businesses have tried to pare down their costs. According to our surveys, margins have become much tighter in the face of tougher competition. Additional cost increases that might have been easier to absorb a few years ago are now considered more significant.

Ms White: You say that the UBR is not the most important factor in deciding where to locate a business. The labour force, transport and the working environment would probably be higher up the scale than the UBR.

Matthew Farrow: It is hard to generalise. For some businesses, the UBR may be the most important factor. That depends on a business's cost structure, its margins and other factors. For other businesses, access to local labour markets or transport is more important.

Ms White: Do you have statistics on your members citing the UBR, local transport links or labour force accessibility as factors?

Matthew Farrow: We might have. In a survey that we published about two weeks ago, we asked questions about competitiveness. I do not remember offhand whether a question was asked on business rates, but transport and transport links were high on many companies' agendas. I will check the detail and send copies of the survey to the committee.

Ms White: That would be lovely. Thank you.

Dr Sylvia Jackson (Stirling) (Lab): Do you have experience of the business rate causing a business to relocate? If so, will you give details?

Matthew Farrow: I do not have personal experience, but I can check with my colleagues and find out whether examples of difficulties exist. When companies make such decisions, a complex range of factors including future markets, investment plans, transport, skills, rates and other costs is often considered. Companies are not always willing to share that information with outside parties—even a body such as the CBI, to which they may belong—because they feel that the precise mix of reasons for making those decisions is subject to commercial confidentiality. I will find out whether we have examples but, because commercial factors are involved, it is difficult to find instances of companies saying, "This was a reason; this was a factor; this cost was so much."

Dr Jackson: Nevertheless, you are sure that changing to a non-uniform business rate would have a bad effect on businesses.

Matthew Farrow: We take that view because our members tell us that. There is a long history to the issue. In the early 1990s, the view of Scottish businesses was that business rates in Scotland were much higher than those in the south. I worked for the CBI in London in the early 1990s. Whenever we had meetings with a range of members—particularly those that were smaller companies—from throughout the UK, a smaller company from Scotland would always ask why business rates were so high.

The previous Conservative Government linked Scottish and English rates. We supported that. Since devolution, that link has been broken and the Scottish rate is now higher than the one in England. At the same time, more increases in national UK business taxes have been made, although the Government and other politicians are reluctant to increase taxes on consumers and the public.

All those factors mean that our members are concerned that relocalisation would increase the business tax take locally. Submissions to the committee from other parties give that impression. That is a strong fear and it is why businesses tell us that they want the UBR. The UBR is important to them as a key element of Scotland's business taxation and it is uniform throughout Scotland. Although we think that the rate is too high, increases have been held at the retail prices index level. Businesses say that that is an important factor.

Dr Jackson: You said that the business rate in Scotland was higher than that in England. Do you know of companies that have chosen not to locate here or that have relocated to England because of that?

Matthew Farrow: I can find out whether we have examples. The phenomenon is fairly new, because, as I said, the link was broken only last year or the year before that. The issue has caused much concern among companies in Scotland and location decisions are not all that is involved.

Some companies cannot move because of proximity to raw materials or to specific transport links. It is risky to assume that if those companies stay where they are—if we drive past the factory and see that they are still there—they have absorbed the cost. In practice, because margins in virtually all businesses are much tighter than they have been in recent years, companies will try to raise prices if they can. That hits consumers and real wages fall. Alternatively, businesses may look to cut staff costs by making redundancies. It is always tempting to think that, for large, substantial companies, rates are fairly small amounts of money and that, in the greater scheme of things, such companies can absorb those costs. However, those costs have to be absorbed somewhere. That may not be done through headline factory closures, but it will still mean higher prices for some consumers or job losses for individuals.

14:30

Mr Michael McMahon (Hamilton North and Bellshill) (Lab): All the information that we have received is backed up by statistics or by studies to show this or that, and everyone can defend their corner. However, some studies have shown that the market determines the price of a property and that, if rates are depressed, rents rise, and vice versa. Do you accept that?

Matthew Farrow: I would like to wade through whatever piece of evidence suggests that. Property prices can fluctuate for a range of reasons, but our concern about business rates is that local flexibility should not be used simply to offset other factors. Rates will be seen as a source of additional revenue; that will happen independently of what the property market is doing.

Mr McMahon: If you accept that there is an argument for that, would you also accept that the return of non-domestic rates to local control would have no real effect on the total price of property?

Matthew Farrow: No. I would like to see the evidence for what you suggest. Our perception is that, to the extent that those market movements happen, they are not perfect. You do not find that rates change a bit and that there is then an automatic offset and vice versa. There may be something of that going on in the mix, but property prices move for a range of reasons. If business rates are steadily increased, it does not necessarily follow that all properties affected will decrease in rental value.

Tricia Marwick (Mid Scotland and Fife) (SNP): Your submission says that the CBI is opposed to the granting of rates relief for small businesses. In fact, you say that the likely beneficiaries of rates relief are "lifestyle firms". What is a lifestyle firm? What is the CBI's view on the granting of relief to small firms that provide essential services, for example in remote areas?

Matthew Farrow: I am happy to tell you that. I have a sense of déjà vu. I think that we spent some time at a previous session talking about the rural scheme, so I did not come with all the facts at my fingertips on this occasion.

We have some concerns about the scheme proposed by the Executive. We are aware of academic research on small firms, which often focuses on very small firms that are created as the result of a lifestyle choice by the owner-manager. My father, for example, was keen to be his own boss and set up a small business. He was self-employed for many years, but his aim was not to grow a business, innovate and employ more people, but simply to make a lifestyle choice for himself. The research draws a distinction between such lifestyle businesses and other businesses whose aim, although they may start small, is to grow and be significant, to develop new products and to employ more people. That may be a crude distinction, but it is not something that we came up with on the back of an envelope. A lot of academic research draws such distinctions.

Our concern with the scheme is that most of the beneficiaries will be lifestyle businesses. Giving a rebate to those firms will not lead to their employing more people or having a greater output, so it will not benefit the economy as a whole. Our argument is that, if our interest is in the economy as a whole and in aggregate employment and wealth creation, we need to be more specific about our small firms policies.

We make an exception for rural rates relief schemes. We have always said that although we are opposed to across-the-board rates relief for small firms for the reasons that I have just given, we think it acceptable, if there is a particular policy reason, to use the rates system as a way of targeting relief. We agree that it is legitimate for local authorities or the Executive to give rates relief to businesses in remote areas that supply essential services on which the local community is dependent.

At the worst extent of the foot-and-mouth crisis, we were one of the bodies that said that it was appropriate to use business rates relief as a way to give short-term relief to the businesses affected. We make an exception for those specific, targeted initiatives. However, we were concerned that a blanket rebate for all very small firms would not help the economy as a whole.

Tricia Marwick: You are saying that you are in favour of the uniform business rate being applied at a national level, but that you are prepared to make exceptions for certain companies and firms in rural areas depending on the circumstances. Is that not just bureaucracy?

Matthew Farrow: That is the danger and that is why we are cautious about going down that route. We take into account the fact that there seems to be a particular issue about small firms in rural locations. There are proposals for an Executive scheme to address that issue. After talking to our members in rural and urban areas, we felt that, on balance, it was worth making an exception for those small firms.

I agree that there is a risk that, once we start down that route, we will be able to think of more and more exceptions and there will be more and more complexity and bureaucracy. Questions arise such as whether the firms get the relief if they do not apply for it. We are mindful of that risk, but we feel that there is a case for the exception that the Executive proposes.

Tricia Marwick: I understand that you are saying that lifestyle firms are generally small businesses because people choose to set them up as such. Is there any evidence that the majority of those very small businesses remain very small businesses, or is it not a fact that those firms, which you dismiss so readily, will grow in the future?

Matthew Farrow: You say that I dismiss the firms readily. My point was that, if our interest is in the economy of Scotland and meeting our collective needs for employment and wealth creation, we should not be focusing on those firms.

Research tends to show that, in a cohort of 100 new firms, for example, the majority will be lifestyle firms. New jobs created by small firms tend to come from perhaps the 10 or 15 per cent of those 100 firms that will grow and succeed. Another 10 or 15 per cent might have sought to grow, but have been held back for whatever reason—lack of market or skills issues. Management is often a major drawback in very small firms; creating a management team is difficult.

The remainder of those firms will not grow substantially; they will remain fairly small. Our point is that, if we provide incentives for them by slashing their business rates, they will not suddenly cease to be lifestyle businesses and grow in a major way. That can occasionally happen, but our reading of the academic research—a lot of research has been done on this subject in the past five or 10 years—is that there is a distinction between lifestyle firms and high-growth firms.

Ms White: I would like clarification of a small point about lifestyle firms. You mention in your submission that you are against rates relief for lifestyle firms. I took out of your submission the fact that lifestyle firms might also service big businesses not just with materials, but with staff, such as in the case of small shops. I just wanted clarification about what you mean. If lifestyle firms disappear, it is not just the businesses that will suffer, but the communities within the areas in which those small firms operate.

Matthew Farrow: It is hard to be precise about definitions. There are a quarter of a million small firms in Scotland, which are all unique; we are trying to get to grips with them in different ways. The key factor—this is not purely a CBI interpretation; it is a research-based one—is the motivation of the owner-manager. Are they seeking to set up a small shop with the aim of expanding the business and setting up another small shop? Take the example of Pret A Manger, which started with one shop in St Martin's Lane in London. It is now a global business employing a lot of people in Scotland. That expansion was always the intention of the two guys who set it up.

A lifestyle firm could be supplying people who work in a larger business. I would not want the committee to get the impression that our view is that it does not matter if such businesses cease to exist. Most people use the research on rates that was done in 1995 to support the case for small business rates relief. Our interpretation of the research is that, for many of those businesses, rates are a small proportion of their costs.

There is much discussion of the fact that rates are a bigger proportion of small businesses' costs than they are of large firms' costs, but the fact is—I would have brought the data had I known that we were going to discuss this—that about 70 or 80 per cent of businesses employ fewer than 10 people. Business rates are about 3 to 4 per cent of their turnover. We do not accept the argument that all the lifestyle businesses are suddenly going to collapse if we do not slash business rates. However, we believe that the opposite argument—that they would inevitably grow—is not true. Lifestyle businesses can start up and shut down for all sorts of reasons, often to do with lifestyle choices. We do not believe that a priority for public funding should be to focus on those businesses.

Mr Keith Harding (Mid Scotland and Fife) (Con): You will be aware from the evidence that we have taken, which is quite substantial, that a case is building that small businesses carry a greater burden than larger businesses as far as rates are concerned. Would the CBI still be opposed to small business rates relief if the costs were to be met by the Exchequer from national taxation rather than by a supplement on the national non-domestic rate?

Matthew Farrow: We would not be opposed in the same way. For the reasons that I have mentioned, the view that we have taken—I can understand the confusion that arises—is that we do not see the approach that you mention as an effective measure to boost the economy, jobs and output. We would be particularly unhappy if the costs of all other business—not just big businesses, but small and medium ones—were hiked up to pay for a measure that we think will not boost the economy.

If the Executive—or the Chancellor of the Exchequer at a UK level—said that it was determined to be seen to be doing something for small firms and was going to pay for such a scheme, we would say that we could think of better ways to use the money to boost the economy. However, if the Executive—or the chancellor—was determined to do that, that would be its choice.

You are right to suggest that much of our concern is based on the fact that such a measure would have a negative effect on all the businesses that paid for it, many of which are currently struggling. CBI surveys show that medium-sized firms have tighter margins and lower profits than the very small firms, yet they are the ones that would be hit.

If the Executive or the Exchequer said that it would not touch those firms and that it would find the money from savings or somewhere else, we would say that we were not convinced intellectually of the logic behind that. However, as long as the Executive or the Exchequer was not taking the money from another business priority, that would be up to it.

Mr Harding: We are getting into the realms of taxation, which is a reserved responsibility. Hypothetically, would you support a system based on the ability to pay?

Matthew Farrow: In what sense?

Mr Harding: In the sense that businesses base their rates on what they can afford to pay. You implied as much by saying that you would support costs being met through national taxation.

Matthew Farrow: There are a couple of issues. If the Exchequer were to pay for small business rates relief, that would not have the negative impact on other businesses.

The ability to pay is a difficult matter, especially when we are talking about companies—to a great extent the matter is in the eye of the beholder. A taxation system that at any one time presents each company with the right tax bill according to what it can pay is a bit of a holy grail. Broad proxies try to take the ability to pay into account, such as corporation tax, which uses proportionate profits, or business rates, which are tied to property on the basis of the larger the business, the larger the property.

The committee took evidence from the Federation of Small Businesses and the Forum of Private Business on their different approaches to the matter. The fact that those two organisations have a lot of data to back up their different approaches shows that a perfect system is not possible.

Should the levels be based on turnover or profits? If a company artificially boosts its profits by not investing, should it pay more than a company that invests for the future and has lower profits? In some sectors, turnover fluctuates hugely, but in others it is more stable. The problem is difficult. I do not know of a formula that, when applied, would be fair to every business. As with many things in life, fairness is in the eye of the beholder.

Our view is that the current method of setting business rates is a reasonable proxy for the ability to pay because it is based on size of property and has the important advantages of predictability and uniformity. It would not be easy or realistic to chase after completely new forms of local taxation on businesses that would somehow exactly match the ability to pay.

I am interested in ideas and research on the matter, but I am concerned about who would decide on changes. With so many different factors in businesses—turnovers, profits and market position—who would decide how much businesses can pay?

14:45

Iain Smith (North-East Fife) (LD): Is it more important to the CBI that the business rate is uniform or that the increases in the rate are predictable?

Matthew Farrow: That is a good politician's question. Both those factors are important. Ultimately, the level of the business rate is more important, but we are concerned about predictability, because we have noticed a pretty wide, cross-sector trend. Many of our surveys ask businesses about their expectations for output, orders and employment for the following four months or year, but businesses find it harder and harder to answer. Two or three years ago, they had a fairly clear idea of orders and output for the following six months, but because the markets are now more competitive, businesses are uncertain, which means that they cannot be sure three weeks in advance.

Business is becoming less predictable, so it is hard to read the market and to get ahead of it. Household name companies—which we think will never go wrong—have struggled recently. The difficulty of reading the market means that the value placed on predictability of business taxation has increased. It is an important part of the arguments that companies put to us for why the UBR should stay. The total amount of cash that the UBR takes out of business is hugely important, but we do not accept that we have to choose between uniformity and predictability—the beauty of the UBR is that we have both.

Iain Smith: I probe the matter because I am interested. If the link to the RPI was broken and the Government could increase the UBR depending on the increase in local government expenditure that it wanted—which is less predictable—would the UBR still be acceptable?

Matthew Farrow: There is a distinction between the system and how people pull the levers. We value the UBR because the level is set nationally. If the level were pushed above what we think is reasonable, we would criticise the decision rather than the UBR. We would agree with legislation to the effect that the UBR could never be increased by more than the RPI.

One benefit of the UBR is that it makes it easier for business to deal directly with the Executive, which has been persuaded that it must cap increases and keep the UBR at a lower level. If it began to move away from that policy, we would lobby hard to restore it. We would not argue for the decision to be pushed out to the 32 local authorities because we have less chance of persuading each of them to keep the level low. The evidence from the Convention of Scottish Local Authorities and the Local Government Association was fairly open about pressure from local authorities. The issue is about gearing and spreading increases more broadly. We probably have a better chance of restricting increases with the UBR system than by relocalising the business rate.

Iain Smith: Has the CBI considered business taxation in other countries? If so, are there lessons to be learned from how other countries tax businesses for local purposes?

Matthew Farrow: We have not considered local taxation in particular. The main lesson I have learned is that we must be wary of what politicians in the UK tell us about the UK tax system. We are often told that we have a low business tax environment, but in other European countries, although the headline rates of business taxation may be higher, there are many more different types of allowances, such as allowances for capital spending. The actual amount that is taken from business is much the same as here. I have some figures, which I can circulate to the committee. They break down the taxes in different ways. In the UK, we take 14.1 per cent of GDP in business taxation. In Germany, the figure is 12.3 per cent. The figure is lower, but that is not the message you get from just the headline rate.

We feel that what matters is the total burden of tax, as opposed to the way in which it is gathered. What strikes us from the figures is that business property tax seems to be much higher in the UK, as a proportion of GDP, than is the case overseas. We want to understand why.

Dr Jackson: I know that we have spoken about small businesses before. You say at the second bullet point on page 2 of your submission:

> "Many of our SME members are likely to be just over the probable thresholds for such a relief scheme. These businesses are strongly opposed to such a scheme."

You go on to represent the views of the medium businesses. I take it that the small businesses are opposed to the scheme because they are over the threshold and will not get relief. Is that correct? Why do you not represent the views of the small businesses?

Matthew Farrow: Those are good questions. We have tried to be honest and as clear as possible in our evidence. I wanted to make it clear that we are conscious of the pressures on medium firms. We feel a particular obligation to represent those firms. We all know about the big businesses; many are CBI members and are able to lobby. There is also a lot of political interest, for understandable reasons, in the role of very small businesses in the economy. We are concerned that a lot of Government policy has been made on the basis that, if a business is not small, it is big. The Government has helped very small businesses with employment legislation, but has implied that, if a company has more than 10 employees, it can cope with any difficulties. Many companies in our membership are in the medium bracket and they have been very hard hit. They do not get exemptions. Although no big business likes the sort of regulations that have been proposed, medium businesses are even more exposed. We feel a particular obligation towards those businesses. A body such as the Federation of Small Businesses does not have such a broad membership of medium businesses. No one else seems to represent those businesses well. That is why we have been especially keen to get their concerns across to the committee.

The definitions of the size of a company can be sliced in any way, but small businesses are well represented in the CBI. To my mind, if a firm has between 10 and 15 employees, it is a small firm. The CBI is not open to self-employed people—my father, when he was self-employed, could not have joined, because members have to be an organisation. Some micro-firms, with two or three people, do join the CBI. Many of them are focused on particular local issues, but I would say that they get a lot of value out of being members of the CBI, through networking and contributing to our lobbying of the Prime Minister and the Executive. However, their focus is very much on the lifestyle issues that we have discussed—local issues that they think the CBI is not best placed to lobby for.

Dr Jackson: Do you agree that the small businesses that are in the CBI have a point when they say that they are just outside the threshold of the relief scheme and so will not get relief?

Matthew Farrow: Part of our concern with the scheme is that, however it is arranged, there will have to be a threshold, which, inevitably, will be pretty low—it will be £10,000 or £15,000 or something—because the money is not there to have a scheme for everyone.

Small businesses that have joined the CBI because they want to grow tell us that it is crazy that the Executive treats them as big businesses as soon as they are just over the threshold. Some have just moved to larger premises and their cash flow may be under huge strain because they are trying to invest to expand or perhaps want to employ another manager. That applies across a range of policy issues. A lot of exemptions are focused on tiny firms and hit the medium firms hard.

The Convener: I thank you for that. We are grateful for your offer to give us more information on a couple of points. Thank you for your time.

Our next witnesses are from the Scottish Chambers of Commerce. We have with us Bob Leitch, who is the parliamentary officer, Bill Stitt, who is the deputy director, and Geoffrey Johnston, who is a past chairman.

Bob Leitch (Scottish Chambers of Commerce): Thank you for giving us the opportunity to appear before the committee to contribute to the debate on what we consider to be an important issue.

Bill Stitt is the deputy director of the Scottish Chambers of Commerce. He is a secondee from the Scottish Executive, where he was involved with local government policy. Geoffrey Johnston was the chair of the Scottish Chambers of Commerce from 1986 to 2000. He is a member of the Dunbartonshire local economic forum and a former member of the Scottish Valuation Advisory Council, so he is well equipped to discuss the issues before us.

We have made a number of submissions to the committee on the issue that we are here to discuss. We are concerned about the deteriorating state of our economy and the low level of overall business optimism, particularly after 11 September. We believe that the proposal for a self-funding small business rate relief scheme will add to the deterioration of the situation.

We are a bottom-up organisation and represent more than 9,000 businesses in Scotland. Our membership includes 28 of the top 36 businesses, although 40 per cent of our members have fewer than five employees. We represent all sizes of business and are well aware of the needs of the small business community.

We support the principles of the scheme but remain opposed to the method of funding. We feel that an even greater burden on medium and large businesses, which, in some areas of Scotland, are finding themselves uncompetitive as a result of high rates, cannot be borne.

Between 1995 and 2000, the rate burden on Scottish businesses increased by 61 per cent, which is 47 per cent above the rise in the retail prices index. My colleagues will happily provide additional information on those figures.

The Convener: Thank you. Before I take questions from members, I would like to ask a question myself.

In your written evidence you say:

"Variations in the non-domestic rate are much more likely to influence where people locate their non-domestic premises."

What evidence do you have that the level of the non-domestic rate will cause business people to relocate their premises? How important is that factor in such decisions, compared with other factors such as the nature of the location, the labour force and communication links? Do you have any concrete evidence of businesses moving from A to B or from B to C simply because of non-domestic rate levels?

15:00

Geoffrey Johnston (Scottish Chambers of Commerce): I am not convinced that we can answer those questions positively for the period that I was chairman of the Scottish Chambers of Commerce. Happily, I was chairman not for 14 years, but for four. If it were 14, I do not think that I would be with you any longer.

From 1981 until 2001, when it was wound up in the first round of quango cuts, I was involved with the Scottish Valuation Advisory Council, a public body that advised the Secretary of State for Scotland. Our annual costs were about £60 a year, so the abolition of the council was not a great money-saving move, but at least we disappeared.

The council played a significant part in bringing the UBR to Scotland. For all my business life I have been a fan of the UBR, which helped to improve considerably the situation in Scotland. In the latter stages of implementation, it cost the Treasury about £400 million, so the Treasury was not very willing to introduce it. In 1985, there was a significant problem of relocation from Scotland. By 1995, the introduction of the UBR meant that businesses had ceased to relocate from Scotland because of the cost of business rates.

If Scotland taxes business more than Wales or England, it will be difficult for us to compete with those countries for incoming business. It may not amount to much in cash terms, but it is a bad piece of policy. That is the evidence that we gave to the Minister for Finance when he first consulted businesses on the subject back in 2000. If there is a perception that taxes in Scotland are higher than in other parts of the world, businesses will locate in Wales, where business rates are even lower than they are in England. We do not have evidence that businesses are moving because of the current 10 per cent business rate, as there has not yet been time for it to have an effect. The situation is much better than it was during the early years of my time as an adviser to ministers on business rates.

Mr Harding: From my questioning of the previous witness, you will gather that I have a favourite expression. In your written evidence you say that whatever system is used, whether it be the council tax or another system, it should be based on ability to pay. How would you go about ensuring that?

Geoffrey Johnston: In my time, we have fought for the tax system to be acceptable. No tax system is popular—by definition—but for a system to be acceptable it must have two elements. First, it must be seen to be fair in its treatment of individual ratepayers. Secondly, it should be simple to administer. There is concern about the inequity that the Executive's proposals on rates relief would introduce, particularly if one ratepayer ended up funding his brother next door. There is also concern about the complications that arise from the proposals. Those would be considerably greater if ability to pay were the primary consideration.

Business rates are—and always have been—based on the value of the property that is occupied. That is a simple concept. The assessor is an independent person who is acceptable to ratepayers because he is seen to be independent of local government and central Government. If the assessor has to examine ability to pay, the issue becomes extraordinarily complicated and the administrative cost of the system spirals. For that reason, the advisory council—just before its abolition—advised the minister not to complicate the system, which works well if it is simple and is seen to be fair.

Mr Harding: In your evidence, you say that the system should be based on the ability to pay. Now you are saying that that is impractical.

Geoffrey Johnston: The issue is indirectly about ability to pay. The proposals that are set out in the consultation paper are, in a sense, ability-to-pay measures, but they are still based on the property value. As property value is primary in the proposals and a business must demonstrate ability to pay to the assessor or to the local authority finance department, ability to pay is a secondary matter.

Mr McMahon: In your written evidence, you state that new capital works should be carried out as public-private partnership schemes. Many of the witnesses who have given evidence to the committee have criticised PPP schemes. They have said that the set-up costs are too high, the lead times are too long and the schemes are expensive, because private firms cannot borrow as cheaply as public bodies and must put a price on the risks associated with the schemes. Have you heard those criticisms and, if so, how do you respond to them?

Bob Leitch: No matter what we do, there will always be criticism. We must attempt to obtain best value whenever we can and we must have a transparent way of doing that. One of the dangers is that that has not always been the case with PPP schemes, which has probably put those schemes under more duress.

Mr McMahon: You said that you try to get best value whenever you can.

Bob Leitch: I will rephrase that—we always try.

Mr McMahon: The next question is obvious. Have you considered any other ways of securing investment in infrastructure?

Geoffrey Johnston: We considered the American concept of a local economic area—which our friends in the CBI will probably know of—whereby a local authority and its ratepayers agree to raise a certain sum for specific expenditure on improving infrastructure and the like in the area. We expressed neither opposition to nor support for that concept, but felt that it was at least worth considering. We recognised the problems that local government has had in providing infrastructure projects over the past few years, when funding has been so tight.

Ms White: On the UBR, your submission is similar to the CBI's. I do not wish to question you any further on that—we have gone through that quite carefully. I am more inclined to question you on what your submission says about the balance of funding between central Government and local government. The question that I will ask you might seem unfair, but I will ask it anyway.

You argue that the balance is tipped more towards central funding than local funding, yet you say that local authorities should not

"fundamentally increase the amount raised locally".

You go on to say that business rates should not return to local control, that council tax should not be increased and that local funding should be offset by a reduction in national taxation. The City of Edinburgh Council threw in the idea that councils should not charge for workplace parking. What would the Scottish Chambers of Commerce do to improve the funding balance? The question may be unfair; you have given reasons why we should not.

Bill Stitt (Scottish Chambers of Commerce): Those are some of the views that our members thought were worth considering. A root-and-branch review of local government finance was a common theme. Our submission states that we feel that balance is needed to return to local accountability. The members believe that too big a proportion of the money provided to local authorities is not raised locally and so they have little influence.

As has been pointed out, we do not want the non-domestic rate passed back to the local authorities because we are in favour of the UBR applying across the United Kingdom. We are particularly keen that it applies across Scotland. If non-domestic rates were passed back, that would lead to variations in rates across individual local authority areas. The $64,000 question is: how do we get over that hurdle?

One view is that some direct local taxation should be given to local authorities by the Scottish Executive or the Treasury. The people who are paying the money in would therefore see the results of the money that they have provided.

Ms White: You are talking about a form of local income tax.

Bill Stitt: Something along those lines.

Ms White: I see that a tax based on the ability to pay is mentioned in your submission.

Bill Stitt: Yes. Whatever scheme is introduced, we recommend that it be based on the ability to pay.

Ms White: So one of your answers would be a local income tax.

Bill Stitt: Something like a local income tax.

Ms White: You have mentioned local income tax, but you also go on to say that you are not in favour of allowing local authorities to increase the amount raised locally. A local income tax would increase the amount raised locally.

Bill Stitt: We mean that the gross take should not be greater. If businesses were paying a local tax, they would not pay so much centrally, so the overall take would not be greater.

Ms White: That would shift the balance.

Mr Harding: You are suggesting a local income tax without increasing the overall take. Would not that reduce the overall take because of the administrative costs of collecting a local income tax?

Bill Stitt: It might do that marginally, but I am sure that there would be a way of dividing up the money without increasing the administrative burden.

Mr Harding: I wish that I had your confidence.

Dr Jackson: Do you have any experience or knowledge of other countries that use such a system without the administration becoming burdensome?

Bill Stitt: I do not but some of my colleagues might have.

Geoffrey Johnston: I do not.

The Convener: It might be interesting to find that out.

Iain Smith: Is the Scottish Chambers of Commerce happy with a property tax for businesses as the means of contributing to local government, albeit that there is a uniform national rate? Have you considered any alternative forms of taxation for the funding of local government?

Bob Leitch: At the moment, we think that a property tax is the most simple and straightforward way. We cannot think of any other way that would be as accessible.

Iain Smith: Your submission seems to say that your main concern is competitiveness and so the key issue is uniformity rather than the predictability of the UBR. Is that a fair assumption?

Bob Leitch: The simple answer to that is yes. I would like Geoffrey Johnston to say a few words about his personal experience of that. We are seeking to have a system that will support small businesses. We believe that there should be such a system.

Our concern about the relief scheme is not the fact that it is a relief scheme—it is a valuable tool that should be added to the kit. We are concerned about the funding of that scheme.

15:15

Geoffrey Johnston: I agree with the last point because of the issue of equity between one ratepayer and another.

In the Scottish Valuation Advisory Council I suggested the example of a small west of Scotland community with a guest house, run by a husband and wife, and a small hotel, run by a husband and wife and two or three local people. The guest house might have a rateable value of about £5,000, but the hotel would be unlikely to get away with a value of less than £10,000 to £12,000. The guest house would win because it used only the husband and wife's labour. The small hotel would struggle because it had to employ labour.

Under the proposed scheme we would be asking the small hotel to subsidise the more profitable business down the road, which is looking for the same traffic and business. That gives a small indication of how there could be a feeling of inequity between two ratepayers in a small community, which could spread among the entire community.

As my colleague said, our objection is not so much the assistance that is being proposed for small businesses, because we have many members in that category, but asking our other members to fund the scheme.

It is our belief that the scheme could be funded centrally. There are revenues that the finance section of the Scottish Executive does not always reveal to the Local Government Committee. Those revenues do not appear to exist, but those who have had the misfortune of becoming involved in the arcane way in which the finances of local government and the Treasury operate know that they exist.

Between 1995 and 2000 the Treasury took something like £1.1 billion out of the Scottish economy. That included money from local government and private enterprise. That money was in excess of what the Treasury would have taken had we been a part of England. The Scottish Executive may well be able to verify whether my estimate is correct.

In so far as the Treasury has taken that amount out of the Scottish economy, I am sure that there is an argument for the Treasury supporting this perfectly reasonable scheme both in Scotland and in England without it being required to be funded by other ratepayers. Our fundamental objection is the inequity of asking other ratepayers to pay for what is otherwise a very interesting scheme.

Bill Stitt: I have a point about predictability. We agree with the CBI that it is vital that businesses know what their business rates are going to be. The ultimate predictability would be knowing that business rates would not increase at all. It is helpful for businesses to know about increases in the RPI.

The Convener: Thank you. Your final remarks were very interesting. Do you have a note of what the finance department of the Scottish Executive is hiding from us that you could pass to us after the meeting?

Geoffrey Johnston: With pleasure, convener.

The Convener: There do not seem to be any more questions. I thank the witnesses very much for coming along and giving us your time. We shall be in touch with you again if we need to be.

We will take a short comfort break of about five or six minutes and we shall have some tea.

15:18

Meeting adjourned.

15:27

On resuming—

The Deputy Convener (Dr Sylvia Jackson): I introduce Andrew Clearie, who is project adviser in the private finance unit of the Scottish Executive's finance and central services department, and Mary Munro, who is head of the capital finance branch of the Scottish Executive's local government finance and performance division. Please start with a few comments on your paper. We will then ask questions.

Andrew Clearie (Scottish Executive Finance and Central Services Department): I will not go into detail on my paper, because the committee will have read it by now. By way of opening remarks, I will make only a couple of points. First, I will explain a bit about the unit in which I work and its role. Secondly, I will draw the distinction between public-private partnerships and private finance initiatives, because the terms are often spoken of in the same breath and are often confused.

The private finance unit is a small unit, with only five staff, in the finance and central services department. It has two roles. First, it provides support to ministers on the implementation of PPP policy and, secondly, it provides technical support and advice to the public and private sectors on developing PFI projects. We also act as a source of information for the public and private sectors. That information takes the form of documents in hard copy and a website to which we direct people and on which we keep a wide range of information.

15:30

As I said, the terms PPP and PFI are often used synonymously. However, PPP is a broad term that is used to describe any partnership arrangement between the public and private sectors for the delivery of services. As a result, PPP includes PFI and structures such as joint ventures and non-profit-distributing bodies. Specifically, PFI refers to a long-term contract for the provision of services that generally lasts 25 to 30 years and involves up-front provision of assets that deliver associated services for the remainder of the period.

Although in recent years the private finance unit has focused mainly on PFI, that is largely for historical reasons. We have recently turned our attention to other forms of PPP as the public sector has started to show greater interest in them.

Mr Harding: The unit is understandably pleased that so many school PFI projects are in the pipeline. What, if any, checks does the unit make to ensure that the population projections for the area that is likely to be served by each proposed school indicate that the school is likely to have a life that at least matches the length of the PFI contract?

Andrew Clearie: We require local authorities that seek support for any school PFI or PPP project that they are developing to present us with an outline business case, in which we expect to see that sort of detail and some logical connection between demographic projections and the scope of the project.

Mr Harding: So there are checks. However, education authorities can elect to close and sell any school that has a declining school roll. What would happen to a schools PFI project in which the school roll suddenly declined?

Andrew Clearie: As demand risk lies with the public sector, the PFI contract would contain provisions to change its scope to take account of the fact that the school was perhaps no longer needed. Because of their long-term nature, contracts must necessarily include change mechanisms.

Mr Harding: Who is taking the risk?

Andrew Clearie: In a PFI deal, the public sector usually takes the risk for demand, which in this case means the risk that a school's roll might exceed provision or fall below a viable level.

Tricia Marwick: Your written evidence stresses the importance of securing value for money from PFI schemes and it cites the results of the Arthur Andersen study as proof that PFI schemes produce savings. Are you aware of the comments that were made by the House of Commons Treasury Select Committee about the validity of the results of that study?

Andrew Clearie: No, I am not.

Tricia Marwick: Okay. According to the Treasury Select Committee, the Arthur Andersen report said that it considered savings in a sample of 29 PFI projects for which a public sector comparator was available. In 12 projects, insufficient information was available to allow a risk assessment. Furthermore, the Treasury Select Committee report states:

> "For the remaining 17 projects, the savings were heavily dependent on the risk valuations, which accounted for 60 per cent of the total savings. Six projects were shown to be cheaper than the PSC solely because of the risk valuations."

Do you have any comments on that?

Andrew Clearie: It is true that the position of such deals is often dependent on the valuation of risk. We would want to check that the risk had been evaluated in a rigorous way that was shown to be robust, and that some kind of sensitivity analysis had been done on the key assumptions that were made about risk. I do not want to say anything beyond that.

Tricia Marwick: Some members are concerned about PFI-PPP projects. Little information is available about such projects because the information is tied up with commercial confidentiality. However, a study has been done by the Treasury Select Committee. I find it surprising—nay, astonishing—that the Scottish Executive's private finance unit should have no knowledge about that or the Arthur Andersen report.

Andrew Clearie: You misunderstood me. I have full knowledge of the Arthur Andersen report. You asked me about the select committee's comments and I replied that I was not aware of them. I was not sure how members would approach that question, but I am fully aware of the arguments behind the valuation of risk in projects.

Tricia Marwick: Surely it is incumbent on you at least to be aware of what the House of Commons Treasury Select Committee said about the Arthur Andersen report before you cite it. The select committee seems not to give the value and credibility to the Arthur Andersen report that your submission gives it.

Andrew Clearie: The Arthur Andersen report was very open about the assumptions that were made on the projects that it sampled. The report made the same point that you made; the value for money of a large number of the projects was dependent on the values that were given to risk within the value-for-money assessment. All that I am saying is that I am fully aware of the potential pitfalls of assessing risk within projects. In more recent projects, it has been my experience that any analysis that is undertaken goes some way towards addressing those potential pitfalls.

Tricia Marwick: Your submission cites the results of the Arthur Andersen study as evidence that PFI schemes produce savings.

Andrew Clearie: The Arthur Andersen study was clear that, in the projects that it sampled, the average savings were 17 per cent.

Tricia Marwick: That same Arthur Andersen study was criticised by the Treasury Select Committee. The select committee found that PFI did not produce the savings that the Arthur Andersen study and your submission suggest.

Andrew Clearie: In my submission, I cited a statement of fact from the Arthur Andersen report. I do not know what I can say beyond that.

Mr McMahon: In addition to risk, elements such as the profit element of PPP schemes have caused concerns. Your submission refers to the work that Partnerships UK has done on a not-for-profit model for delivering new schools, which you call the non-profit distributing bodies model. Will you explain further what that model entails.

Andrew Clearie: There are a number of different approaches to not-for-profit models. Fundamentally, as the name suggests, the non-profit distributing bodies model means that there is no distribution of profits to shareholders; the profits are reinvested in the company.

Mr McMahon: Is it as simple as that?

Andrew Clearie: Yes.

Mr McMahon: How much development of that model has taken place?

Andrew Clearie: Argyll and Bute Council is looking at that type of model for its schools PPP, which it is currently scoping. Partnerships UK is working with that council on the project. We are awaiting a report from it on the viability of that model.

Mr McMahon: Is there a time scale for when that could be brought into use?

Andrew Clearie: The time scale for that project depends on how the project is developed by the council.

Mr McMahon: So must you work closely with the local authority on all aspects of it?

Andrew Clearie: Yes.

Iain Smith: One of the concerns that is regularly expressed to me by people in the local government community is about the complexity, time scale and cost of introducing PPP schemes, even before they get to the development stage. The amount of work that is involved and the cost and the time scale are sometimes quite horrendous. Has your unit examined those aspects—the preparation costs—to see whether they can be improved and made simpler and cheaper?

Andrew Clearie: One of the roles of the unit is to provide technical support to project teams. There are now many PFI projects, which are at various stages of procurement. We have learned lessons from the early projects. We are trying to put in place a number of measures to reduce procurement time for projects, because procurement is a lengthy and expensive process. For example, we are trying to increase the amount of standardisation of contract documentation. The Office of Government Commerce has produced a revised Treasury task force standard document, which will be issued soon. The Executive is developing a standard Scottish schools contract for PFI schools.

Beyond that, we are trying to provide direct support to project teams to ensure that they have the correct project management structures in place. We are trying to ensure that they are approaching the project correctly, that they address issues of value for money and affordability before they go to procurement, and that they identify potential problems that could cause difficulty later in the procurement process, when it could be quite damaging to the project. We are trying to ensure that project teams are as well prepared as they can be and that they have the strategies in place to deal with potential problems before they go to the market.

Iain Smith: A second issue that is raised is that the more rural authorities have more difficulty introducing PPP schemes because the size of projects that are available to them is not sufficient to make them viable. Are you considering ways in which that can be addressed?

Andrew Clearie: It is generally accepted—certainly for PFI deals—that the threshold in the schools market, for example, is about £10 million. Below that, the viability of the project and its attractiveness to the market are questionable. One way round that is to encourage authorities to bundle schools together into larger packages. That might mean bundling within one authority, as Falkirk did with its schools project, or it might mean neighbouring authorities working together on joint procurement.

Iain Smith: Looking ahead, the costs of servicing PPP projects will have first call on local authority resources, particularly capital resources, in future years. Is the unit keeping an eye on the implications of that for local authority budgets? I envisage a time—five, 10 or 15 years down the line—when there might be a major problem for local authorities because so much of the money is tied into servicing of existing schemes.

Andrew Clearie: We do not track the implications in respect of individual authorities' budgets, but we keep an eye on the overall picture, which is the revenue commitment that arises from PFI projects. I think I am right in saying that the Scottish budget documents now carry figures for revenue and capital commitments under PFI.

Ms White: On level-playing-field support, your submission says:

> "A one off sum of £50m was allocated in 2 waves to 20 projects across a range of local authority services on a competitive basis. The awards are capped."

It also mentions that the awards are

> "conditional on the projects being 'off balance sheet' and on contracts being signed by 31 March 2002".

What exceptions are there to that deadline?

15:45

Andrew Clearie: Exceptions have arisen because some projects have not moved forward as quickly as we had hoped and the original deadline was going to cause problems for them. For example, because of the protracted procurement timetable that is associated with roads projects—due to public inquiries and so on—the A92 project will not meet that deadline.

Ms White: Did you mention 1992?

Andrew Clearie: The project is the A92 road project.

Ms White: I was wondering about that. It is way past 1992.

Is the time scale for the deadline too short? Was enough time given for people to meet the deadline?

Andrew Clearie: The level-playing-field support was allocated in 1998, so we had to estimate when we thought the latest of the projects would be completed. At that time, four years seemed quite reasonable. Indeed, most projects have successfully met that deadline.

Ms White: How much money has the Executive committed over the next 25 years to make PFI attractive to local authorities? Has the Executive looked that far forward?

Andrew Clearie: We do forward projections in relation to level-playing-field support. I do not know the exact figure for the 25-year period, but it seems that the Executive commits between £55 million and £60 million a year to level-playing-field support.

Ms White: Would you be able to get that information for the committee?

Andrew Clearie: We could make that available.

Dr Jackson: We have heard how PFI schemes will be monitored and evaluated in terms of best value. How will that process take place?

What effect on the costs of PFI schemes might the debate about the London underground and the demise of Railtrack have?

Andrew Clearie: We are putting in place arrangements to monitor PFI projects in operation. That has to be done against the backdrop of best value. We are lagging slightly behind England in the implementation of best value.

Only now is a reasonable number of projects getting to the operational phase, particularly in the local authority sector, where the greatest emphasis so far has been on schools projects. We intend to put in place measures to monitor how the projects operate in practice.

Dr Jackson: I would like to ask a supplementary question on that point before you answer my second question. Could we have information on paper that shows how a PFI that is up and running—so that confidentiality is not an issue—is of best value and how it is being monitored? That would allow us to see how the process operates.

Andrew Clearie: To be honest, I have not thought about that.

Dr Jackson: Will you find out whether that is possible?

Andrew Clearie: Yes.

Your second point was about the effect of large projects on the general costs of PFI-PPP. I do not know whether there will be any impact. PFI works on a sectoral basis. Companies specialise in some deals. Some companies specialise in accommodation projects, such as schools or hospitals. Companies tend to be influenced more by what happens in the sector than by what is happening generally. I am not sure whether the projects that you mention will have any overall impact.

Tricia Marwick: I will return to Iain Smith's point about the revenue costs of PFIs over the next 25 years. Correct me if I am wrong, but I think you said that you monitored the situation for Scotland but that your figures have not been disaggregated.

Andrew Clearie: We monitor the situation on a sectoral basis for Scotland. Those figures are sent to the Treasury biannually and we use them in our budget documents.

Tricia Marwick: You say that you have figures for the cost over the next 25 years of present PFIs and for their cost year on year and that you give those figures to the Treasury.

Andrew Clearie: Obviously, we also use them in our own Scottish budget documents.

Tricia Marwick: Will you make those figures available to the committee?

Andrew Clearie: We have made that information available in parliamentary written answers.

Tricia Marwick: I do not think so. David Davidson requested the information as recently as 14 September. He was told:

> "The annual public expenditure required to service these projects and their lifetime costs are matters of commercial confidentiality between the public sector bodies concerned and their contractors, therefore the figures are aggregated."—[*Official Report*, *Written Answers*, 26 September 2001; p 145.]

The Executive gave those figures only to 2005-06. Given the importance of our inquiry, if you have figures for the 25-year lifetime of projects that you are using for the budgets and that you give to the Treasury, we would like an undertaking from you to make those figures available to us.

Andrew Clearie: I say with respect that the figures for the full period have been made available in parliamentary written answers. However, I am willing to make those figures available to the committee too.

The Convener: Okay. Thank you.

I do not think that members have any more questions. You said that you had not thought about Sylvia Jackson's idea. I will pursue that because, as you know, the Finance Committee is investigating PFI, which is also relevant to our local government finance inquiry. The information that Sylvia Jackson requested would provide a simple way for us to consider how you monitor PFIs.

The committee is always interested in monitoring. Committee members can be legislators and make policy. It is incumbent on us to check that policy is working. The system in this Parliament is not as clear as that in another place, where a House of Lords exists—I do not advocate that we should have one—and where miscellaneous provisions bills can be introduced to adjust acts.

The Arthur Andersen study has been mentioned several times. I was surprised that you have not read the House of Commons Treasury Select Committee's report that mentioned it. Perhaps you skimmed through it. What we read and quoted of it threw up some differences of opinion for us; perhaps you will pursue that. If you are to monitor the situation or to take as wide a base as you can, you should have as much information as possible.

I ask you to follow up Sylvia Jackson's idea of giving us an example and the comments that Tricia Marwick made. That just involves finding out who asked the question and how it was answered.

I thank you for coming and giving us your time.

15:54

Meeting continued in private until 16:03.

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ISBN 0 338 000003 ISSN 1467-0178