OFFICIAL REPORT
AITHISG OIFIGEIL

Local Government and Communities Committee

Wednesday 26 April 2017

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

Wednesday 26 April 2017

CONTENTS

LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE
12th Meeting 2017, Session 5

CONVENER

*Bob Doris (Glasgow Maryhill and Springburn) (SNP)

DEPUTY CONVENER

*Elaine Smith (Central Scotland) (Lab)

COMMITTEE MEMBERS

*Kenneth Gibson (Cunninghame North) (SNP)
*Jenny Gilruth (Mid Fife and Glenrothes) (SNP)
*Graham Simpson (Central Scotland) (Con)
*Alexander Stewart (Mid Scotland and Fife) (Con)
Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Ken Barclay (Barclay Review of Business Rates)
Marianne Barker (Barclay Review of Business Rates)
Patrick Harvie (Glasgow) (Green) (Committee Substitute)
Graeme Jones (Scottish Financial Enterprise)
David Lonsdale (Scottish Retail Consortium)
Stuart Mackinnon (Federation of Small Businesses)
Alasdair MacTaggart (Scottish Assessors Association)
Ian Milton (Scottish Assessors Association)
Jonathan Sharma (Convention of Scottish Local Authorities)

CLERK TO THE COMMITTEE

Clare Hawthorne

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Local Government and Communities Committee

Wednesday 26 April 2017

[The Convener opened the meeting at 10:04]

Interests

The Convener (Bob Doris): Good morning, everyone, and welcome to the 12th meeting of the Local Government and Communities Committee in 2017. I remind everyone present to turn off mobile phones. As meeting papers are provided in digital format, tablets may be used by members during the meeting.

Apologies have been received from Andy Wightman and Alexander Stewart, who will not be with us. I am pleased to say that Patrick Harvie is attending as a substitute committee member on behalf of Andy Wightman. Welcome, Patrick. I invite you to declare any registrable interests that are relevant to the committee's remit.

Patrick Harvie (Glasgow) (Green): I do not believe that I have any registrable interests that are relevant to the committee's remit.

Non-domestic Rates

10:04

The Convener: The committee will now take evidence on non-domestic rates from a number of stakeholders. That will be followed by a session with Ken Barclay and a colleague from the Barclay review, which has been tasked with reviewing the rates system. Today's session is a precursor to the committee identifying what issues we might wish to explore in relation to proposed changes to non-domestic rates following the Barclay review.

I welcome to the meeting Jonathan Sharma, who is policy manager at the Convention of Scottish Local Authorities; Stuart Mackinnon, who is external affairs manager, Scotland at the Federation of Small Businesses; David Lonsdale, who is director of the Scottish Retail Consortium; Alasdair MacTaggart, who is president of the Scottish Assessors Association; Ian Milton, who is vice-president of the Scottish Assessors Association; and Graeme Jones, who is chief executive of Scottish Financial Enterprise.

Given the number of witnesses, we will not have opening statements but will go straight to questions. However, the first question will present an opportunity to briefly put something on the record.

How would you like the non-domestic rates system in Scotland to change? You have all submitted written evidence, and there is a lot of that. If you have a key ask, you might want to put it on the record at this stage. What would you seek to change? Ken Barclay will give evidence afterwards, of course; we can then perhaps discuss what has been said. We will start with Mr Sharma. What are COSLA's key asks? What would you like one of the key outcomes of the Barclay review to be?

Jonathan Sharma (Convention of Scottish Local Authorities): Politically, COSLA has stated that we would look to see the return of business rates to local control. We believe that the full localisation of business rates would ultimately re-establish and maintain local democratic accountability for the use of local government funding much closer to the local business communities. That is our stated aim.

In practice, there are a lot of milestones to reach before responsibility for full rates is returned to local control, but we very much see that as the direction of travel, and we would like that journey to develop.

We welcome the Barclay review asking about the intention behind business rates, why we are trying to levy them and what we are trying to achieve. It is about recognising that business rates are local taxation and establishing the local connection between businesses, democratically elected councillors and the communities that councils and businesses serve. We think that there is a very important synergy there, and a connection that needs to be re-established in order to ensure that businesses understand why they are being charged what they are being charged and that they are able to contribute to the process to influence how that happens in their local environment. We will—

The Convener: That is a fairly clear key ask, and you are obviously expanding on your reasons and the case for why that should happen. That is on the record, and I am sure that some of our witnesses will want to respond and say how they feel about that. That is pretty clear. I am sorry for cutting you off, but I did so for time purposes.

Mr Mackinnon, what would your key ask be?

Stuart Mackinnon (Federation of Small Businesses): From the small business perspective, we would really like the Barclay review to consider short-term measures and medium to long-term measures.

Short-term measures would include making the business rates system more user friendly and transparent, more frequent revaluations, the retention of extra help for Scotland's small business community, and addressing the concerns of businesses that are not helped by the small business bonus scheme.

In the medium to long term, we would like rate reforms that address issues relating to the rise of the digital economy and an attempt to introduce an element of turnover into the business rates system.

The Convener: Thank you very much. There is a lot in that. Mr Mackinnon has a number of key asks.

David Lonsdale (Scottish Retail Consortium): Thanks for the invitation to attend today's meeting, convener. I guess that we are partly—or almost entirely—to blame for the creation of the Barclay review, so Ken Barclay might have something to say about that later on. We instigated the review of rates and organised the business community to voice the need for a review of rates. The Scottish Government obviously listened to the calls for a review, so we very much welcome the creation of the Barclay review.

In terms of our asks, which I think was the word that you used, we want a system that flexes with the economy and that provides for a more competitive rates system and a lower tax burden. Frankly, we also want a more coherent approach. I am happy to expand on those points.

On specifics, we put in our submission to the Barclay review—and met Ken Barclay to discuss—issues such as having more frequent revaluations, which Stuart Mackinnon has already mentioned, and reducing the period between undertaking revaluations and implementing them—the experts round the table would call that the antecedent period. As I said, we are also looking for a timetabled plan to reduce the rates burden and, frankly, we want us to live up to some of the aspirations in the Scottish Government's economic strategy to have the most competitive business rates system in the United Kingdom—things like the doubling of the large business rates supplement fly in the face of that aspiration.

We may come back to the relocalisation of business rates, which the gentleman from COSLA mentioned. We take a different view on the matter and I would be happy to come back to that later on.

The Convener: Hold that thought, because I might ask a follow-up question about that once we have heard all the key asks.

I will go to Mr Jones next, if that is okay, as I think that the Scottish Assessors Association might have a more operational view of some of the key asks, if that makes sense.

Graeme Jones (Scottish Financial Enterprise): I agree with many of the points that Stuart Mackinnon and David Lonsdale have made. Financial services in Scotland are made up of very big businesses—some of the biggest businesses in the country—and some very small businesses. Probably the primary thing that we would look to achieve is to have a strong underlying economy. We feel very passionate about that and would want to work with colleagues to achieve it.

The Convener: Thank you very much. Does Mr MacTaggart or Mr Milton want to respond on behalf of the SAA?

Alasdair MacTaggart (Scottish Assessors Association): Good morning. We can answer your question very quickly. The main issue for assessors at the moment is the lack of priority given to gathering information. For a tax to be fair, equal and equitable it needs to have a good information base. We need to have access to all the relevant information to allow us to arrive at an accurate and acceptable value for all property at the time of revaluation.

We have argued for a long time that the powers that we have are not sufficient to allow us to gather information. I think that you will have seen it mentioned in the press and in some submissions to the committee that the level of return in some sectors is actually quite low. If some consideration could be given to increasing and enhancing our powers—first, to gather the information and, secondly, to prevent appeals from being heard unless the information has been submitted—that would go a long way towards adding to the fairness of the tax, which is an underlying principle and is something that we always strive to achieve.

I add to the mentions that have been made of transparency. We believe that we are transparent but that we could do more. We have said that we could do more but we are currently at a break point as we are stymied by a lack of funding—we fund this ourselves—and by legislation that prevents us from making certain information available: legislation on data protection and commercial confidentiality prevents a lot of the information that we hold being made available, so we need to look for legal gateways to add to the information.

Tens of thousands of people a month visit the SAA website to gather information on rates, rateable value and to link through to how rates are calculated and what they have to pay. We could do much more and be much more interactive. We need to consider how that is best done in terms of funding and the legislative background.

The Convener: That is interesting. I have used the SAA website in my day job as an MSP on several occasions; it is pretty instantaneous and seems pretty up to date.

Before we go on to consider some of the comments about local democracy and non-domestic rates, I have a question for Mr MacTaggart. You mentioned not getting information. I think that the Federation of Small Businesses mentioned that less than one third of businesses inform the assessors of commercial rental income. Is there a requirement to do that? Is that one of the things to which you are referring?

10:15

Alasdair MacTaggart: Yes. If a property is let, the ratepayer is obliged by law to make a return to advise what the rent is and the details behind the lease. Beyond that, we look for information on building costs, the costs of plant and machinery, the sale price of land and, in certain cases, turnover for licensed premises and hotels. We also look for information on any of the larger subjects, such as utilities, which are valued on receipts and expenditure. We need to see the statutory accounts of those organisations.

There is a piece of legislation that is now 160 years old and enforced by a £1,000 fine via the procurator fiscal. It is hard to enforce that. We all know that procurators fiscal have other business that is more pressing than doing that and the burden of proof that we require to establish before going to the sheriff court is quite high. We would much prefer to have a system that gave more direct penalties in terms of the value or the ability to appeal if no return was made when one could have been made. That is the important thing.

I anticipate that a number of smaller businesses may not have a return to make because they may not have property that requires an entry in the valuation roll. Their owners may work from home and other premises may be owner occupied so there would be no rent return to make. In that case, we would not expect them to make a return. However, there is sufficient let property for us to gather enough information to establish schemes of value. Where there are gaps in that information, it becomes more difficult to do that and makes it unreliable. What the Government wants out of a revaluation is predictability for the tax take and, if that is put at risk by appeal reductions, we need to try to prevent that.

The Convener: Mr Mackinnon's submission, I think, mentioned only one third providing that information. That could be because it is challenging for small businesses to provide it. Is there a way of making the system easier for small businesses to give the required information to the assessors?

Stuart Mackinnon: Yes. The data collection issue is not a new one for the current revaluation. We had exactly the same issue at the previous revaluation with the same problems in the same sectors. If we were looking to modernise the business rates system, we could merge many parts of the interface for it so that a business would pay its bill, submit its data and learn about Government policy in a single place.

I also make the case for data sharing between authorities. Could the assessors get information from regulators and Her Majesty's Revenue and Customs to be able to come up with accurate valuations? Although I understand the assessors' case for additional powers to get rental data, there are smart ways that we could approach the problem without that.

The Convener: That is helpful.

Ian Milton (Scottish Assessors Association): The Lands Valuation (Scotland) Act 1854 gives us the power to get information only to make an entry in the valuation roll. If we want to make a different entry in the valuation roll for a different property and we want to rely on some cost information that we could get from a newly constructed school, for instance, we do not have the statutory power to go and get that information. We do not have powers to request the information to maintain and defend entries in the valuation roll.

The other side of the coin is that a lot of the non-domestic property is owner occupied. In my area, only 38 per cent of properties are let, so I issued forms to only 38 per cent of rateable occupiers. Therefore, 29 per cent of Federation of Small Businesses members making a return does not sound unreasonable if we think that the starting point was probably about 38 per cent.

The Convener: Thank you. That was very helpful. Witnesses have mentioned that they might have concerns about NDR reverting to local authorities. I will pose my question and then bring in Mr Sharma in for comments. In order that we do not just say no to that key ask, what can be done to reassure you so that we can work towards transferring those powers to local authorities? What are your concerns and what reassurances would be helpful?

David Lonsdale: We have supported a degree of local flexibility in the rates system and we have been great supporters of business improvement districts. The Scottish Government has introduced the business rates incentivisation scheme, which has, according to a paper that was published by the Scottish Parliament information centre last month, begun to generate £2 million to £3 million for local government. We have been supportive of the power that was introduced under the Community Empowerment (Scotland) Act 2015 to give councils discretion to cut business rates in their areas. I understand that only two councils have acted on that in the three financial years since the power came into effect: the committee may want to follow that up.

Although we have supported some local flexibility, we would be against relocalisation of the poundage rate for the simple reason that business would, at the end of the day, be treated as a cash cow. We would have more faith in councils' ability to take on control of the poundage rate if we had seen greater use of, for example, the new discretionary local rates relief, or had seen the money from BRIS transparently being put into something that would help the economy. The people who are in favour of that change need to make the case for it; we are not convinced, thus far.

The Convener: Are you saying that there are no reassurances that would satisfy you and that your response is just "No"—a no to local democracy on NDR?

David Lonsdale: I do not think that it is "no to local democracy" at all, for the reasons that I have just outlined.

The Convener: Okay. I will allow members to come in, but first I will give other witnesses a chance to comment.

Stuart Mackinnon: Last year we asked our members what they thought about localisation. Only a very small proportion were in favour, largely—as David Lonsdale said—because businesses fear that their bills will go up. You have only to look at the submission from the Scottish Assessors Association to understand that we are dealing with an already complex system. If we add to that complexity the possibility for there to be 32 different poundage rates and relief schemes, we will have another thousand variations that could be added to a system that is already not well understood by the business community.

The Convener: That is very helpful, because you are starting to set out what concerns there might be and to say that a localised system would need safeguards to ensure that it would operate effectively. Does anyone want to add to that?

Graeme Jones: I am not an expert in the way that the other gentlemen are; they have dived deep into the subject. However, from a general economic point of view, the issue that affects our clients—many of Stuart Mackinnon's and David Lonsdale's organisations' members will be clients of Scottish financial institutions—is the fact that the rates will inform, depending on what happens, investment and lending decisions, so it drives small and medium-sized enterprise customer behaviour.

The Convener: I will bring in Mr Sharma in a moment to mop up some of that, and then we will hear from Mr MacTaggart and Mr Milton, but we will hear from a committee member first.

Graham Simpson (Central Scotland) (Con): I want to home in on the question of localisation. To summarise Mr Mackinnon's and Mr Lonsdale's views, you appear to be saying that you do not trust local politicians and that you think that they will whap your bills up. However, they could also bring them down. What is your problem with local politicians?

The Convener: That might take you all day.

David Lonsdale: We do not have any problem with local politicians. However, as I said in my first answer, for the past 18 months local authorities in Scotland have had the power to reduce business rates in their area, but thus far only two of the 32 local authorities have acted. If there had been a greater take-up of that power, and greater and more transparent willingness to cut business rates and to reflect some of the arguments that the committee has heard from the SRC, the FSB and other organisations about what is happening in the economy, that would have provided a greater degree of faith that councils had got the point.

As I have said, we have been very supportive of other aspects, including business improvement districts, but it is for the people who think that it is important to relocalise business rates to make the case for that and to persuade people that things would be better under such a regime. We are not persuaded, thus far.

The Convener: Okay. Ken Barclay will be listening to those comments. Mr Mackinnon was named, as well.

Stuart Mackinnon: We are trying to relay what our members have told us. The business community perhaps understands the pressure that local government is under. Many of our members have strong relationships with their councils. However, our members also think that, given the choice between additional revenue and the strength of the local economy, councils will choose revenue every time—specifically, and for comparison, if they are forced to make a choice between increasing council tax and increasing business rates.

The Convener: A lot of members want to come in on that. I promise other witnesses that I will let them in, too.

Kenneth Gibson (Cunninghame North) (SNP): I want to look at the issue from a different perspective. I represent North Ayrshire and Elaine Smith represents North Lanarkshire, which are areas in which much of the spend on businesses does not go to businesses in those areas. Glasgow is a magnet for my constituents, Elaine Smith's and those of other members; people go and spend their money in the city. No doubt the same happens with Jenny Gilruth's constituents in Fife, who will go into Edinburgh.

My point is for Mr Sharma. Surely if we have relocalisation of business rates Edinburgh and Glasgow will become considerably more prosperous, which would have a detrimental effect on areas such as North Ayrshire and North Lanarkshire, unless another series of complex compensatory mechanisms were established. Although a lot of the discussion is pro localisation, for me the problem is practical application of the policy because of differences around Scotland in how money is spent on businesses.

The Convener: Mr Sharma, would you like to respond to that? I give a heads-up to Mr MacTaggart and Mr Milton, because they will want to make some points on the complexity and management of the system, because they would have a role in that.

Jonathan Sharma: My general point is that that is an issue that is fully understood in the local government community. What happens at the moment is that the Scottish Government carries the risk on business rates. Clearly, some councils can generate business rates more easily and readily than others.

What I tried to say in my opening remarks was that COSLA is calling for a direction of travel that takes us towards greater flexibility and then, potentially and ultimately, to full localisation. We welcome local reliefs, and we take on board the criticism that councils have not necessarily taken up that power as some of the business community perhaps expected. All I can say on that is that there is another issue about money and what councils can afford to do. Business rates represent £2.8 billion and are a very important part of the local government funding framework.

There are complexities in trying to take the policy forward, but COSLA believes that there are steps that could be taken—local reliefs is one, and there are others. There is some flexibility around poundage, for instance. We do not see that that would necessarily create disruption in a way that would lose the faith of business communities.

The Convener: Assessors are fiercely independent and assessors have to make whatever assessment makes the system work well. Is that the case, Mr Milton?

Ian Milton: Yes. We have to do our side of it—the property assessment side. NDR is local taxation; assessors are local and we assess it locally. However, that is just the starting point of the rating system. Localisation itself is on the rating side, rather than on the property valuation and assessment side.

It is clear to me, as somebody who has practised in local taxation and NDR for many years, that the challenge to any stakeholder and to any system of taxation is stability—stability in terms of income to whichever taxing authority requires it, be it local government or central Government, and stability for the taxpayers, who need certainty and stability in terms of their outgoings because they need to be able to plan ahead and model their businesses.

10:30

The Convener: Do you wish to add anything to that, Mr MacTaggart?

Alasdair MacTaggart: Not really. Mr Milton has covered the point.

David Lonsdale: Mr Gibson has put his finger on a very pertinent issue. We published a report at the beginning of the month, and it alights on the fact that there has been a reduction of about 1,700 in the number of shops in Scotland over the past six or seven years. We anticipate that that decrease will continue and, indeed, accelerate. Our study considered where the reduction in the number of shops is likely to take place; it will be in the more economically fragile and vulnerable communities.

There is an element of Mr Gibson’s question that is about being slightly careful what one wishes for regarding relocalisation of the business rate. He has made a pertinent point.

Elaine Smith (Central Scotland) (Lab): I listened with interest to my colleague Kenneth Gibson’s question, which I think has to be considered. I would normally think that we should devolve down as much as possible—that approach is what I would naturally be drawn to—but he has made a good point about areas like North Lanarkshire. In such areas, and specifically taking it down to Coatbridge, if we turn things the other way round, it is not just about business; it is about how people view their local area and how communities feel about what is happening there. A number of the empty shops in Coatbridge have recently been subjected to vandalism, fire and so on. That is not good for the local community. The local council might be best placed to find solutions to that, rather than there being central solutions.

I have a couple of questions about shops closing and small businesses not opening up. First, is there any point in considering two different systems—for example, with the larger rates being the subject to more central control and more redistribution? I have seen something in our papers about strategic growth for Scotland as a whole and the economy as a whole, with smaller businesses’ rates being more devolved. Would businesses just be considered to be cash cows—to use a term that some of the witnesses have used—or would local authorities be better placed to encourage small businesses back into their town centres, perhaps by taking a different approach?

My second question is about relief on empty properties. Many of the empty properties in my area are owned by large companies—some are offshore companies. Does the rates relief on empty properties act as a disincentive for business? Does it allow properties to lie empty when they could be used? Is that something on which local authorities might be better placed to make judgments?

The Convener: There was a lot in that. What about the two-tier system, first? There could be two systems running in tandem—one devolved and one not.

Stuart Mackinnon: The Federation of Small Businesses is a champion for local communities and small shops. I cannot see our members who run small shops feeling any different from the wider business community in relation to localisation. I highlight—as David Lonsdale did—the point that the current rates relief powers have been underused. The FSB, in its local government manifesto, is calling for that to be addressed. Perhaps local authorities could use the rates relief powers to target hard-pressed key local high street and town centre units.

Empty property is very concerning for the Federation of Small Businesses. Over the past five to 10 years, there have been a number of high-profile closures, with large public and private sector organisations continually choosing to withdraw from small-town Scotland. If we are going to inject new life into our town centres and high streets, we need a wide variety of operators—retail and non-retail—and we need to make it as attractive as possible for public and private organisations to relocate their staff in town centres and on high streets. Business rates is one factor, but we need to look at the wider property system. Elaine Smith is absolutely right that in some towns and high streets a single landlord can make a big impact in terms of the attractiveness of a place.

Elaine Smith: If that single landlord was not getting rates relief on the empty properties, would they be looking at the rents that they were charging, and might that incentivise small businesses to open up in those properties?

Stuart Mackinnon: When the Scottish Government made its recent changes to empty property relief, we supported those changes on the basis that we expected rents to drop because landlords would be paying more in rates. Unfortunately, the wider changes that are taking place in the economy at the same time, whereby we are seeing a growth in less property-dependent industries and the public sector is reducing its estate, mean that there is still a significant oversupply of property in a lot of places.

Elaine Smith: You have talked about the digital economy, which is obviously having an impact on small town centres. Can you expand on that briefly?

Stuart Mackinnon: Absolutely. The SFE’s members and the SRC’s members are probably making similar decisions. More of their customers are doing more of their business online, so they are closing some of their estates. Bank branch closures, for example, are a key concern for us. The public sector is doing the same—for instance, we have seen police station counters close because it was decided that they were being underused. The digital economy is a factor.

How we adapt our systems and processes to make sure that Scotland’s small towns and other places that are really important to us are still vibrant is a key challenge that we all need to address, and property tax and regulation will need to adapt in the future.

The Convener: Mr Sharma, the original questions were about there being two systems of

NDR depending on the size of the property, and the need to tackle empty properties.

Jonathan Sharma: We have been talking about the direction of travel, and those are the kind of ideas that we have had ourselves. Could you look at how you shape the rates system so that local government could potentially have control of certain aspects of it? There would be risks in that, but a key point that has been mentioned is the fact that small businesses have a lot of contact with local economic development departments, and that is the kind of innovation that we would like to explore.

We have spoken to the Scottish Government about the different things that it could do to move towards full control. It is about getting the flexibility back so that councils can use levers around that. I take the point that local reliefs are one of those aspects, but the ability to manoeuvre around the rate poundage is quite important to us. As I say, there are risks in taking all the big money bits out of that, but I am not ruling it out.

David Lonsdale: On town centres, people are voting, if not with their feet, at least with their keypads and their smartphones, so there is a major structural shift in the retail industry. About a quarter of non-food retail spend is now done online, and our figures demonstrate that about one in 10 shops in Scotland are empty.

Quite a lot is being done in public policy to create a more supportive regime for town centres. There is a lot of private and public sector collaboration; there is the town centre first principle, which Stuart Mackinnon talked about; public bodies are thinking about locating in town centres if they are going to make changes; and there has been an amount of investment in the public realm. For us, however, the missing ingredient in all of that is the cost and ease of doing business in our town centres. Certainly when I go out and speak to our members and retailers in Scotland, business rates is the issue that comes to the fore each and every time.

Ian Milton: The two issues—the two-tier system and rates relief for empty properties—fall outside the area of valuation and assessment, but I will make one point, as a valuer. Mention has been made of the possibility that some measures could lead to rents coming down and occupation going up. If we want to make sure that the fall in rents is picked up, we need to make sure that we have regular revaluations to pick those changes up.

The Convener: That is helpful. We need to move on now, and I call Patrick Harvie.

Patrick Harvie: I want to follow up briefly on localisation before moving on to other issues. First, however, I observe quickly that I lost count in the first 10 minutes of the number of references that were made to "business rates". I think that only one witness so far—Mr Milton—has used the term "non-domestic rates". I worry that there is a slight danger of us forgetting that it is not only businesses that pay non-domestic rates. We are sitting in a building that pays nearly £7 million in NDR. Businesses pay NDR, but it is not a tax on their business; it is a property tax, and there are many other, non-business organisations that pay it.

On localisation, I wonder whether we should be surprised that the power—the discretion—to reduce business rates at local level has not been used very much, in much the same way that I do not think that we should be surprised that the original power of the Scottish Parliament to vary income tax within tight limits was not used.

Local councils lack the ability to set that change in a wider context. Surely, if we want them to have flexibility but we do not want it to drive them towards regarding one group of payers as a "cash cow", as Mr Lonsdale put it, we should ensure that they have genuine flexibility, as is normal in so many other European countries, on a range of financial measures and not just on one. If local government wanted to reduce the business rate poundage at present, it would either need to hike council tax—within a rate-capping system from national Government on council tax—or to start to increase fees and charges, which would often affect people on low incomes, who place the highest demand on public services.

Should we not be looking at wider fiscal decentralisation in order to ensure that councils can exercise genuine autonomy rather than being forced to use what limited autonomy they have in a predetermined way?

The Convener: Who would like to answer first? No one is catching my eye. Mr Lonsdale, you smiled, so you can go first. [*Laughter*.]

David Lonsdale: A lot of Patrick Harvie's contribution was a statement, and then he asked a question at the end about wider fiscal devolution. We would look at any practical proposals that came forward with an open mind, as we did with the commission on local tax reform, which reported about 18 months ago. It looked at council tax and potential replacements for that, and it came out with a number of suggestions, including a local sales tax. It will not surprise the committee to learn that the idea of a second form of VAT filled our members with a degree of horror.

We will be open-minded if other proposals come forward. We are here today to talk about business rates or non-domestic rates. Ken Barclay is on the witness panel after us and, as I understand it, he has been tasked with looking at improving the non-domestic rates system in Scotland, not the wider basket of powers. That is something for the political parties and the Parliament.

10:45

The Convener: We are double checking whether Ken Barclay is looking at how NDR fits into the wider ambit of taxation powers; I do not think that he is. Does anyone else want to comment on that before Mr Harvie comes in with his next question?

Ian Milton: Briefly, we have local assessors across Scotland. As a local assessor in Grampian, I have worked with the local authorities in my area on business improvement districts, for example, and on an interesting project looking at tax increment financing. There is a wealth of property valuation expertise that can inform the decisions that are being made in that area, but I suppose that your point is about wriggle room.

The Convener: The terms of reference for the review relate specifically to NDR.

Patrick Harvie: There is a case for seeing everything in context.

Moving on to reliefs and exemptions, as you know, I am here today in lieu of my colleague Andy Wightman, who told me about a visit to a business in his region that is benefiting from the small business bonus scheme because it is under the £15,000 threshold. It is happily enjoying that relief from paying non-domestic rates. The shop next door is vacant, and the landlord has advertised at the previous rent plus what would have been the non-domestic rate, knowing that any future tenant will benefit from that.

Do any of you see evidence that the way in which the small business bonus scheme operates means that it is in danger of driving up rents and therefore passing on the benefit that is coming from the public purse not to small businesses or other organisations that pay non-domestic rates, but to landowners and landlords, some of whom are remote and do not actively contribute to the Scottish economy?

Alasdair MacTaggart: What Mr Harvie says is right. There are no philanthropic landlords out there. If they see a chance to increase the rent because the tenant's business is making a greater profit because he is paying less in rates, they will take that chance. This is not a new phenomenon—it happened a number of years ago when we had enterprise zones dotted around the country. The rents clearly showed that the lack of having rates to pay increased the rents that were paid by the tenants. That trend has also become evident in a number of streets where there are charity shops. Because charity shops do not pay rates because of charitable relief, they can put more towards the rent—or the landlord thinks that they should put more towards rent. That does happen.

We are a number of years into the small business bonus scheme and, for certain properties where the small business bonus scheme applies because of the size of shop or office, the landlord is using rent reviews to start to take a share of that saving. That is the way that landlords operate, and it is a danger of the scheme. At this revaluation, it has become apparent that the rate of increase in value for some shop and office premises has outstripped that of those in shopping centres.

That is my view. There are obviously a number of variables at play in any analysis, but that is one clear and consistent trend that we have observed in our analysis.

The Convener: Can anything be done to mitigate that? Is one of those unintended consequences always going to happen because of the nature of that relationship?

Alasdair MacTaggart: That is the balance that has to be struck if you have a basket of reliefs. When there is a complex array of reliefs, it complicates the letting market and takes away—I was going to say "purity", which is a word that you might not want to use in the context of the letting market. It adds other variables. The decision whether to have rates relief is a political decision, but politicians need to be aware of the consequences that having a basket of reliefs will have on any property market.

Patrick Harvie: One option might be not to have a simple monetary cap in terms of rateable value, but to use other criteria to determine eligibility. That would mean that landlords would not have the confidence to say, "Whoever rents my property will be getting the small business bonus, so they can afford to pay a bit more rent." There could be some flexibility there.

Other criteria might be to do with the type of business. The Lothian assessor confirmed that 92 per cent of the 1,153 self-catering properties in their area will pay no NDR at all. Many of those properties might be owned by wealthy people on high incomes, some of whom might live out of the country, and I think that many people question whether such people should be entitled to the same kind of relief as someone who is genuinely running a small business in Scotland and who is based in the area.

In designing a relief scheme, the use of such criteria could limit the unfairness that is at risk of arising.

The Convener: There could be other criteria to meet, rather than an automatic entitlement to the small business bonus for people who fall below the threshold. I should clarify that it is about being below the threshold across the range of a business's properties in a local authority area; someone who has two properties, which takes them above the assessor's value, would not qualify for the small business bonus. Quite often, businesses have two, three or four properties and do not qualify.

Do you have any thoughts on conditionality in relation to the small business bonus, Mr Mackinnon?

Stuart Mackinnon: We have come across little evidence of the phenomenon that Patrick Harvie described, whereby landlords hike up rents as a consequence of the property being eligible for the small business bonus. However, we agree that valuable work needs to be done to ensure that the property market works for smaller businesses, which do not have the resources that their larger counterparts have.

Let me stand up for self-caterers for a moment. I think that many self-caterers would say that they run valuable small businesses, not just in Edinburgh but in our rural north, where many people have a variety of incomes—they do a bit of self-catering and maybe a bit of something else to keep themselves going. Many people who run self-catering apartments, cottages or whatever would say that they run a small business and should be entitled to relief.

Patrick Harvie: Yes indeed, but perhaps not all of them.

Stuart Mackinnon: Well, I think that if we are going to talk—

The Convener: I want us to consider conditionality and how we might build additional criteria into the system and manage that effectively, so rather than get into the merits of some self-catering businesses, perhaps we can focus on the system.

Stuart Mackinnon: There is some conditionality at present. If someone has a large number of properties, their aggregate RV knocks them out of the small business bonus.

On the more general point, we regard the small business bonus as a tapering of the existing system. It results in about £200 million of notional lost revenue in an overall system that takes in £3 billion a year. From our perspective, if the Government got rid of it or introduced conditionality, that would potentially reduce large businesses' bills by only one or two percentage points, and I am not sure that that is anyone's intention. I am not sure what problem we are trying to solve.

The Convener: Does anyone else want to comment, before I bring in Mr Simpson?

David Lonsdale: We support the principle behind small business rates relief, albeit that our research shows that about three quarters of employment in the retail industry in Scotland is with firms that do not benefit from small firms rates relief.

To pick up on Patrick Harvie's previous question, I guess that the wider, more holistic point is about the expanding number of reliefs. I hope that Ken Barclay will take a look at those schemes in his review to see whether they all still offer value for money and whether the rationale remains relevant. I think that the Cabinet Secretary for Finance and the Constitution is talking about expanding the number of reliefs, which is interesting in itself.

More fundamentally, looking at some of the figures, it appears that the total value of reliefs is approximately a quarter of the £2.6 billion or £2.8 billion that Jonathan Sharma mentioned, and the reliefs make up an ever greater proportion of the overall tax take. That suggests that a lot of sticking plasters are being applied to the rates system overall, which is why we are glad that Ken Barclay is looking at it.

The Convener: Before I bring in Graham Simpson, does Patrick Harvie want to follow up on any of those points?

Patrick Harvie: I have one other question for the Scottish Assessors Association, on exemptions, if that is okay.

The Convener: That is fine—we will come back to Graham Simpson in a moment.

Patrick Harvie: The reintroduction of non-domestic rates on sporting and shooting estates under the Land Reform (Scotland) Act 2016 effectively ends an exemption, but forestry and agricultural land are still exempt from NDR. There has been criticism of that for decades from the Layfield committee, the Mirrlees review, the Scottish Affairs Committee and the land reform review group.

First, I would like to know how the reintroduction and implementation of rates on sporting and shooting estates is going. However, even if there is a policy intention to have a 100 per cent relief scheme for agricultural and forestry land, is there not a case for putting it on the valuation roll in order that we know the cost to the public purse? Currently it operates, in effect, as an entirely uncosted 100 per cent relief scheme.

Alasdair MacTaggart: That is absolutely right. We say in our submission that the valuation roll should be all encompassing. The valuation roll as it stands is perhaps the most complete document that covers land and property and its occupation and use in Scotland. When it is added to the council tax valuation list, there is no doubt about that.

You are absolutely right that the largest deliberate omission from the valuation roll is agricultural land and buildings and forestry—there are other, smaller exemptions such as public parks, and domestic property has its own valuation system. It is in the public interest to be able to value agricultural property and to quantify the amount of relief that is given. Politicians need to have that information at their fingertips in order to ensure that the distribution of relief is properly calculated.

On your point about the return of rates on shooting estates and deer forests, work on that is under way. We have been working with the Scottish Government, Scottish Natural Heritage and other organisations to obtain accurate, current information on the use to which various sporting lands—if that is the right phrase—are put so that we can understand the different layers of use, because different species are let to different tenants, and they exercise sporting rights in that regard. There are also tenant farmers who have a common-law right to kill vermin to protect their crops, and we need to understand better what is happening there.

The information has been gathered and we are formulating a scheme of values. It remains our intention to publish those values by 30 September this year.

Patrick Harvie: Do you know what the yield is likely to be?

Alasdair MacTaggart: It is too early to say, because that calculation is still being carried out. I would not like to speculate on what the figures will be without having a chance to look at the most recent information, a large portion of which arrived as recently as last Thursday. However, we are certainly working towards that with the various interested parties such as Scottish Land & Estates, the Forestry Commission Scotland and so on.

The Convener: Graham Simpson can go next, followed by Kenneth Gibson.

11:00

Graham Simpson: I want to take us back to where we started, when the convener asked for the panel's ideas. You have all spoken about the non-domestic rates system as it exists, and have given your thoughts on that. It seems to me that none of you has come up with a reinvention of the system. I would be interested to hear what you would do if you were to reinvent the system. You all appear to be basically satisfied with what is there, which you say just needs a bit of tinkering here and there. However, Mr Mackinnon's submission says that the system is "difficult to ... navigate" and should be "more user-friendly", and Mr Lonsdale's submission calls it "unwieldy". If you were to come up with some radical ideas—not what we have now, but something different—what would they be?

The Convener: Are those your secret key asks that you talked about at the beginning, Mr Mackinnon?

Stuart Mackinnon: In our submission, we tried to be deeply practical and ask what we can actually do. That is why we focus on the worst aspects of the system, from our point of view, which are that it is very clunky, operationally and administratively, and we say that there is plenty of opportunity to use technology and better co-operation between public bodies to drive efficiencies and make the system better for end users.

As an organisation, we have thought very hard about what an ideal system would look like, both in Scotland and elsewhere—one that would adapt to changes in both technologies and people's working habits. We would probably need the resources of Government to design a new and perfect tax system, but ideally we would like to see a system that contained a factor that measured businesses' ability to pay. One thing that we see in the revaluation, at least for firms that are outside the scope of the small business bonus—for example, small hotels and nurseries—is that small businesses that operate from high-value premises seem to be at the tough end of the current system.

We would also like to see a means to encourage businesses to invest in their properties. One of the peculiar things at present is that if, for example, someone installs energy efficiency measures in their business, they will see an increased bill at the next revaluation. Those sorts of things seem to be perverse incentives in the current mix.

The Convener: Does anyone else want to take up Mr Simpson's offer and say what their key asks would be if they were being bold? You are competing with each other for that chance—we will hear from Mr Milton first.

Ian Milton: I would like to address some of the points that Mr Mackinnon made in answer to Mr Simpson. Mr Lonsdale might want to make some points as well.

Essentially, Mr Simpson is asking us to predict what Ken Barclay and his review group might look at, or to look beyond that.

Graham Simpson: I am not asking for that. I am asking for your thoughts.

Ian Milton: As an individual assessor, my thoughts are that Government, whether national or local, needs that £2.8 billion of income, and the question is how it is going to get that. Taxation is always about looking at a basket of activity—not just commercial activity, but activity across the economy, including in the public sector. A taxation system needs to address all the various aspects and interactions of non-domestic life.

A property tax seems to be quite a good idea, because property does not move: property in Scotland stays in Scotland. To raise £2.8 billion or thereabouts from property assessment or property tax, we have to look at a basis of evidence. Every property tax needs to be based on good evidence so that it is transparent. Most non-domestic property, or a significant amount of it, is rented. That is essentially what led to rateable values driving a rating system. I do not have the facts and figures on collections because I am not from a billing authority, but I know that non-domestic rates come in very highly in terms of collection rates compared with other forms of taxation.

With regard to the operationally clunky side of things, I definitely think that we need modern powers to deliver a modern system, and we need modern powers in order to get, use and share information.

As for Stuart Mackinnon's point about businesses' ability to pay, that might or might not be an issue. After all, we are talking about non-domestic rates; two thirds to three quarters of the valuation roll might be made up of commercial properties, but the rest is made up of non-domestic properties such as hospitals, universities, colleges, schools—and even Parliaments, as has been noted.

The point about investing in property is interesting. In these debates, the SAA has made the point that there are opportunities to make the system more investment friendly. For example, if the operator of a property-based business in, say, the hospitality industry decides to take on the risk and debt that are associated with expanding their business by expanding their property, the first thing that will happen is that their rateable value will increase, because the value of their property will have increased. Perhaps that issue could be looked at. It was certainly looked at with domestic rates, where, as far as rates collection was concerned, there were delays until the following April with regard to improvements to individuals' dwellings.

There are other options that could be considered for the next valuation, and there are certainly policy areas that could be looked at and in which, as a lands valuation assessor, I can see opportunities, but I am—obviously—working within the existing legal framework.

The Convener: Did you want to add something, Mr Lonsdale?

David Lonsdale: Yes. I just want to make it clear that we are not remotely satisfied with the current rates system. We have done a lot of work on the issue over the past couple of years. Early on, we took the temperature of a lot of different policy makers from around Scotland and other parts of the UK, including the political parties, and for the reasons that other panel members have outlined, there really is remarkably little appetite for having anything other than a rates system or a property system.

Something else that we should bear in mind is that we should not underestimate the sheer amount of work and effort that has gone into getting to the stage of having an independent review of business rates and an opportunity to improve the system in Scotland. We have talked about pretty substantial changes with regard to flexing the system, making it more competitive and moving away from some of the—to be frank—ad hoc supplements and levies that we have seen in recent times, which we can see are not good for Scotland's reputation or for business investment when we stand back and look at them. There are some meaty things that one can do, but one can also do some quite simple things to improve the system and make it more investment friendly.

The Convener: As no one else wishes to comment, I will move on to Kenneth Gibson.

Kenneth Gibson: With regard to the small business bonus scheme, I was struck by the statement in the FSB report that, without it, one in five small businesses would close their doors and most of the others would cut back on either staff or investment. That shows the value of the scheme.

I want to talk about the clunky administration. In paragraph 26 of his submission, Mr Lonsdale says:

> "Retailers of any scale often have shop premises across several or indeed many local authority areas which means they have to deal with several different billing authorities. The number of billing authorities could be reduced, as could the number of Assessors."

Interestingly, he also points out:

> "There are fourteen Assessors in Scotland yet in Wales and England a single assessor undertakes the assessment process, in turn providing greater efficiencies and consistency."

I ask our assessor colleagues why they believe—if, indeed, they do—that Scotland needs 14 assessors, given that there is only one in England, and whether they would support that number being reduced to one, as is the case in the other nations of the UK.

Ian Milton: I can certainly answer that. In England and Wales, HMRC provides for the property assessment aspect of local taxation through the Valuation Office Agency. As part of HMRC, that agency obviously has HMRC's resources behind it, but it does not have quite the same information, such as proprietor, tenant and occupier information, that assessors in Scotland have.

Assessors in Scotland go back a long time. That does not mean that the approach is wrong, but nor does it mean that we cannot modernise, and we have been doing that over many years and the many reorganisations of local government.

Whether we have 14, 15 or 10 assessors is not really the issue. We have a local taxation system that is delivered and supported through the Scottish Assessors Association, and efficiency and effectiveness need to be looked at closely. Lands valuation assessors in Scotland do not just do lands valuation for non-domestic property; they also do the valuation roll. For example, in my area, I deal with 26,000 non-domestic assessments and 270,000 domestic assessments, which are increasing by about 2,000 a year. On the non-domestic side, there is a continual roll-over of new properties, alterations and additions that need to be managed and assessed using local knowledge. There needs to be a local assessor on the spot to provide that knowledge.

England and Wales do not have that approach. I am not sure how the rate payers in the north-east of Scotland, for example, would have felt about the revaluation if they had not had a local assessor to speak to directly. It is the same for politicians. They can come and speak to me and discuss our local evidence and expertise. As a local assessor, I provide a joint service over three council areas. Working closely with the billing authorities and the industry, we can offer a tailored service.

What does the SAA do? It makes sure that we pool our resources in terms of valuation practice and procedure. The 14 assessors work together on governance—there is no point in reinventing the wheel 14 times—and you will see that on our website. We also do central collection of data, central negotiations, whenever we can, and central representation, which is why I and my colleague are here today rather than all 14 of us. That is the public side of things.

We also do an awful lot of work behind the scenes. We have national specialists, just as they have in England and Wales, and we use those resources. For example, the plant and machinery specialist who spoke to the Barclay review has also been assisting the assessor in Orkney and Shetland with gas plant terminals and that sort of thing. We also share a contingency arrangement that is formalised for resilience, and we harmonise the valuation office.

I can see that my time is running out.

The Convener: No, it is fine. Please continue. You are giving a very comprehensive answer, Mr Milton.

Ian Milton: Through its executive committee, the SAA harmonises with England, Wales, Northern Ireland and Ireland, because the rating system extends throughout the wider British isles and overseas. We have a model of local delivery with national co-ordination. If you moved to having a national body, you would lose local accountability. We have local valuation appeal committees that deal with the local assessor. Rate payers also deal with the local assessor, as do politicians, as I mentioned.

In the revaluation, I have provided well over a dozen briefing sessions to groups such as the Aberdeen City & Shire Hotels Association; the fish processing industry in the north-east; business associations in Huntly, Inverurie and Elgin; chambers of commerce and so on.

The Convener: Mr Milton, I might stop you there. You seem to be adding to what was already a very comprehensive answer.

Ian Milton: Convener—

The Convener: I will let you add something briefly before I bring Mr Gibson in.

Ian Milton: The one unique thing about the Scottish system is that your assessors are also the electoral registration officers. We have pioneered a huge amount of consistency in working with electoral registration.

There is a huge synergy between putting property in the valuation roll and the valuation list and putting people on the register. According to Electoral Commission research, that means that the electoral registers in Scotland are more complete than those anywhere else in the United Kingdom. We see that we are streets ahead when we look at some of the key areas, such as the private rented sector. In England, registers for the private rented sector are about 56 per cent complete; in Scotland, the figure is 70 per cent, so we are significantly ahead. That is to do with the synergy in our locally-based assessors dealing with both property and people.

11:15

Kenneth Gibson: That was indeed a very robust response to my question. Basically, you are saying that the Scottish system is completely different, that comparing England and Scotland is like comparing apples and oranges, and that the

Scottish system is better than the system south of the border.

Ian Milton: We certainly do not work in silos.

Kenneth Gibson: Mr Lonsdale, you raised the issue in your submission. Do you have any response to what Mr Milton said? He did not comment on businesses having to deal with different billing authorities. Do you want to touch on that?

David Lonsdale: Mr Milton made a number of good points. We have suggested that the matter ought to be looked at. We are conscious that the Scottish Government has taken quite a bold approach to the fire and police services in recent years, consolidating a number of boards in each case. There has been an appetite in the Scottish Government in recent years to consider such reform, and we think that assessors are candidates who are worthy of consideration.

Kenneth Gibson: Do you want to reply to that, Mr Milton?

Ian Milton: Yes. Make no mistake—my mind is open to any modernisation agendas that we can deal with, because it is in my interest to ensure that we get the right result and delivery of a modern, effective service. However, the fire and police reorganisations were completely different. The assessor service is completely professionally oriented in its delivery of services. I do not really have a back office. I do not have payroll, human resources, accountancy, audit, procurement or health and safety services. All those services are part of what I have to—and do—operate under, but I purchase them on the back of a local authority in my area, and I pay very little for that. It is extremely good value. Those services already provide procurement, HR, personnel and payroll services for their local authority, and the cost of adding another 76 full-time equivalent employees, which is what my service uses to service three entire authorities in electoral registration, valuation assessment and domestic banding, is very small. I hesitate to say what it is, but it is well below £100,000.

The Convener: We will definitely move on now, as time is against us. We will have to close this evidence session after the next question. If any witness wants to say something that they have not had the opportunity to say, they should catch my eye and get their say, because we will move on in the next few minutes.

Elaine Smith: I want to make two points. I want to go back to the issue that Graham Simpson discussed earlier with the panel but first, on what Kenneth Gibson explored, Mr Mackinnon said on page 14 of his submission:

> "The SAA could be asked to provide an annual report to the Scottish Parliament".

Why would that be valuable?

Stuart Mackinnon: This year's revaluation is a good example that shows why we think that a better relationship should be struck up between the Scottish Parliament and assessment. There are three parts of the rates system: Scottish Government policy, local government and the Scottish assessors. In the past, there has not been as much scrutiny of the methodology and practices of the assessors as we would like.

I reflect on the previous discussion about clunky administration. For instance, people running a business in Scotland who really want to understand their bill could look up the Scottish Government website to understand rates policy, and they could then look up the Scottish Assessors Association website to understand their valuation. Then, they could look up their local council's website to understand whether any local reliefs exist. Then they may need to print off a paper form to apply for the said reliefs, as there has been so little digitisation on that front. All of that points to a system that is less than efficient.

I accept that Scotland is radically different from England, but why can we not start with a blank sheet of paper and give it to Revenue Scotland? We were asked earlier, if we were given a fresh start, where would we start? Let us give it to our new tax authority and get it to develop every part of the system on a national basis.

I completely accept that there would still be a place for local engagement. I do not see why we could not have local engagement and successful business-facing digital public services. I do not think that those things are mutually exclusive. It is perfectly possible for the assessors to continue to do the other parts of their jobs. I understand that non-domestic rates are only a small part of the assessors' functions but, from the business perspective, the local valuation appeal committees, for example, are baffling and backward.

The Convener: I suspect that the assessors will wish to respond to that. Mr Milton and Mr MacTaggart, would you like to respond on the "baffling and backward" point?

Ian Milton: "Baffling and backward" valuation appeal committees are essentially nothing to do with the assessor. The valuation appeal committee structure is very old: that is agreed. The committees are manned by volunteers. The people responsible for working out the disposal programme for revaluation appeals are the individual chairs of the individual valuation appeal committees. They are volunteers, who give up their own time.

Referring to the Tribunals (Scotland) Act 2014, there is a programme for moving all local tribunals, whether they be valuation appeal committees or whatever, into the new framework. The “baffling” side of appeals will be addressed through that, I am sure, but I understand from the Scottish Government that the programme will take place around 2020 to 2022. As an assessor, I am in the same position as a ratepayer, in that I am party to that process.

On oversight of assessors, the Scottish Valuation Advisory Council was in existence many years ago, and assessors would report to that committee on an annual basis. Usually, that would be through the SAA. However, that council was abolished in one of the—I hesitate to say “bonfire of the quangos”, as I am not quite sure whether it was part of the bonfire of the quangos. In any case, it fell by the wayside for whatever reason at the time.

At present, we report to Government on our progress, and we agree on our progress with the revaluation. There are certainly reporting options available. I am sure that, with the Scottish Fiscal Commission, there will be more opportunities for us to explain to policy makers, Government and regulators what we do, how we do it and why we do it.

The Convener: Because of time, I am going to have to wrap up very shortly. Do you wish to roll together any additional thoughts before I let our witnesses back in and then close the evidence session?

Elaine Smith: I want to ask about an important issue that follows on from what Graham Simpson was saying. We can probably come back to the issue of how reporting to Parliament might be done. I wish to return to the ability to pay. Again, I am picking on Mr Mackinnon. On page 10 of the FSB submission, Mr Mackinnon says:

“Many businesses feel a property value-based tax, rather than one based on sales or profit, is unfair and arbitrary.”

I am interested to get some further comments on that. If you are considering profits or ability to pay, how do you consider hospitals, which are non-profit making? How do they fit in?

Furthermore, would that not be an argument for a more localised system for small businesses? Individual circumstances could be taken into account. An example that springs to mind is a butcher whose family has worked for generations on premises in the main street, but who has been temporarily affected by something—in the past, it might have been the so-called mad cow disease—and might require temporary relief. In such cases, a local area would be better placed to respond.

If the rates were to change from a property-based valuation to a valuation based on sales and profit, how would that be achieved? What would be the advantages and disadvantages of such an approach?

The Convener: Perhaps Mr Mackinnon will comment on that first. I will give every other witness an opportunity to say whatever they want to—within reason, of course. I will then bring to a close this part of the meeting.

Stuart Mackinnon: That approach would come under the medium to long-term aspirations for the business rates system. Any reforms would have to be phased in. In the example cited, we could imagine that the data provided to HMRC would indicate the turnover or the profitability of a business and that would be a partial factor in the bills of a business. That would be combined with property data to come up with a bill for non-domestic rates. That would not happen overnight; it would take a long time to put in place. The system would need to be comprehensible to ratepayers. That would be better done nationally, simply because of the complexity of sharing data between such authorities.

To reflect on the discussion about non-domestic or business rates, the member is right to highlight the public sector. It is peculiar that the public sector is in the system. We know for a fact that many public sector organisations lay a huge number of rate appeals to reduce their tax bills, which will then be funnelled back to them in the end. That all seems like sand in the gears of the system. Broadly, I would make the case for as much of the public sector to be removed from the system as possible.

Jonathan Sharma: To sum up, we recognise that more can be done to improve how non-domestic rates are administered. If councils were local taxation authorities rather than billing authorities, we would see a different relationship with businesses.

On the small business bonus scheme, if that were localised, it would be a perfect example of how we could make much greater use of councils’ relief powers. I just want to throw that into the mix.

The Convener: Can I clarify an aspect of your point, Mr Sharma? Are you saying that the scheme should be localised and ring fenced? You are not suggesting that the money should just be given to local authorities and that they would not have to spend it on small business rates relief, are you?

Jonathan Sharma: The technicalities of that would have to be looked at. I just had the thought that, if we are trying to move towards a more flexible and local system, localising the small business bonus scheme is an aspect that could be looked at.

The Convener: You will appreciate that there would be concerns about that money not being ring fenced. Nonetheless, it is an interesting idea.

David Lonsdale: The retail industry is going through profound changes, as are a number of other sectors. As I have said, people are voting with their feet—they are shopping online—and we are seeing incredibly tough competition for the limited spending power that is available.

Public policy is making the owning of shops and employing people more expensive. We see that through the impact of the national living wage, the apprenticeship levy, the statutory pension increases and business rates and so on. My plea to the committee and Parliament is to be cognisant of that and to be aware that public policy is accelerating some of the changes that we are seeing. When retailers and other businesses are looking to invest, they are seeing people and property becoming more expensive, while digital capability is being improved and enhanced and, in relative terms, becoming cheaper.

11:30

Alasdair MacTaggart: Assessors do not make the market—assessors follow the market. To allow us to follow the market accurately, we need access to as much information as possible, as quickly as we can get it. We also need to carry out regular revaluations—whether that happens every three or five years is a matter for debate and, perhaps, research. By doing that, we can accurately reflect how the rental market and the property cost market has reflected the economic conditions that have gone before.

We have heard a lot about reacting to the market. I will provide some examples. Braehead shopping centre, which must be known to a few of the committee members, is in my area. Its retail value has declined by 20 per cent. The retail value in Greenock shopping centre has declined by 67 per cent. If retail value has declined, that is reflected in the values from 1 April 2017. I will contrast that situation with telecommunications for Scotland, which is an area that I also deal with. The values for the two largest telecoms companies have increased by 400 per cent and 300 per cent. Therefore, we see that value is moving towards the internet and away from retail.

Ian Milton: I have little to add. In its present format, NDR is a tax on the occupation of property. As I have said, the challenge is to provide stability for Government—local or central—on income and stability for the ratepayer or taxpayer in knowing what is coming.

Graeme Jones: The discussion has been interesting and informative. I have learned a huge amount of detail, so I have found it very helpful indeed. A few aspects have chimed with me: simplicity, clarity and certainty. Certainty is desperately important for business planning. It is incredibly difficult to plan expansion, growth, another acquisition or whether to keep a business open without it.

David Lonsdale and Stuart Mackinnon said that globalisation and digitisation are not going to go away: they are driving change and having an enormous impact on our high streets. Stuart’s suggestion about how we might deal with that is part of what I would call the overarching strategy and solution. Perhaps the high street will not just be occupied by retailers. Perhaps there will have to be non-retail as well as retail businesses on the high street. It would be good to do a deeper dive into understanding the characteristics of those businesses, because every town—and I grew up in a small town in the north of Scotland—always has a couple of strong anchor businesses. What makes them successful? What allows them to continue to grow and expand and to weather the various economic storms? It is important to understand that.

We also need to understand how we stimulate economic activity in our local communities, so that when someone is looking to leave school or they are coming back from university or whatever it is, they consider setting up a small business of their own, rather than going to work for a larger company or going south of the border. Therefore, we need to look at what goes on in school and colleges.

That all takes us back to what the overarching strategy is for stimulating economic growth in Scotland.

The Convener: That is incredibly helpful. It has been a pretty long, but worthwhile session for the committee. As you know, we will speak to Mr Barclay shortly. We will follow the review and its outcomes and decide on how to progress our scrutiny of the process.

This hopefully will not be the end of our relationship with the witnesses here today. If something comes into their heads that they do not think came out in the evidence and that they want to follow up on at a later date, they should contact the committee clerks and we will certainly take that forward. Thank you all for coming along this morning.

11:33

Meeting suspended.

11:42

On resuming—

The Convener: Welcome back, everyone. We are still on agenda item 1, and we move to panel 2. I welcome Ken Barclay, the chair, and Marianne Barker, the secretary, of the Barclay review of business rates. I thank both of you for coming and apologise for the fact that the previous evidence session overran. I thought that it was important to allow the witnesses to put as much information on record as they could. Mr Barclay will make some opening remarks, after which we will move to questions.

Ken Barclay (Barclay Review of Business Rates): Thank you for inviting us. Last year, I was asked by the Scottish ministers to produce some recommendations sometime around the middle of this year—no specific date was suggested—that sought to enhance and reform the Scottish business rates system, or non-domestic rates, to better support business growth and to reflect a changing environment in the economy and in the market while maintaining the level of revenue or tax income that is necessary to provide the local public services that businesses rely on. To that end, I am assisted by Nora Senior, David Henderson, Isobel d'Inverno and Professor Russel Griggs.

I listened with interest to the earlier evidence session and will reflect on a few of the comments that were made. I want to ensure that, when we make our recommendations to the Government, we take account of the issues that have been raised this morning. However, you will appreciate that, at this stage, we are in the process of carrying out the review and decisions have yet to be made. Therefore, I cannot confirm what we will recommend to the Government later in the summer. You will also appreciate that some of the businesses that have sent papers in response to our request for information wish to keep their comments private.

However, I can outline some of the work that we have done so far. We called for evidence in 2016, and we have received 156 written submissions. The group and I—individually and collectively—have attended various board meetings and round-table events at which non-domestic rates have been discussed. We have taken oral evidence from around 40 individuals, or maybe slightly more, and we have been meeting businesses around the country over the past month or so. Last Friday, I was in Inverness, talking to businesses there, and we had a business meeting in Edinburgh yesterday.

I stress that no decisions have yet been made, but I am happy to take questions and, in particular, to listen to committee members' points of view to make sure that any recommendations that they feel that we should look at are taken into account

11:45

The Convener: Thank you, Mr Barclay. I appreciate that there may be some constraints on how much information you can give us, but I am sure that that will not prevent members from asking questions anyway.

We will move on to a question from our deputy convener, Elaine Smith.

Elaine Smith: I thank our witnesses for attending to speak to the committee about the review.

I want to start with what we might call the terms of engagement of your consultation on the review. The question that was asked was:

> "How would you re-design the business rates system to better support business and incentivise investment?"

However, as we were trying to tease out in the earlier evidence session, the issue is about non-domestic rates, rather than simply business rates. Why was the question framed in that way, and how wide will your review actually be?

Ken Barclay: You are correct in your observations around the remit, which was

> "to enhance and reform the ... system ... to better support business growth".

The Scottish Government seeks to achieve growth in Scotland and, if we can facilitate that through some of the recommendations that we make, that would be welcome.

I recognise that many of the properties that are on the valuation roll contribute to society but do not, in themselves, contribute towards economic growth. We are focusing our efforts on coming up with ideas and recommendations that will help with economic growth in Scotland.

Elaine Smith: So your review is very much not of the non-domestic rates system.

Ken Barclay: I say that it is such a review.

Elaine Smith: Although it is focused specifically on economic growth and business rates.

Ken Barclay: There are many issues that will impact on both businesses and the public sector that are part of the non-domestic rates system. There are many properties that are not on the valuation roll but that will be impacted by any recommendations that we make.

If we were to take account of some of the recommendations that we heard earlier—for example, reducing the time between valuations—that would have an impact on other properties that are not necessarily businesses as such.

Elaine Smith: Okay. I am not sure that I am entirely clear on that, but I am sure that other colleagues will want to ask questions, so I might come back in later.

The Convener: I want to check something, so that we have a little bit of clarity. In our previous evidence session, we heard that it was perhaps peculiar that some NDR payers in the public sector, such as schools and hospitals, get a bill—which they might dispute, appeal against and have lowered—but the money effectively goes back to local authorities anyway, and it all stays in the public sector. Would you consider exempting certain public buildings from the non-domestic rates system in the first place, which might make the system a lot more efficient? The expression that one of our witnesses used was "sand in the gears".

I understand that the issue is not straightforward because, for example, community leisure trusts run commercial operations as well as public services, so there are commercial considerations as well as the provision of core, quality public services. Is that something to which the review will give consideration?

Ken Barclay: Yes, of course. Equally, with the Scottish Parliament building, which was referenced, elements of it will be able to be let out to private individuals and private companies, who will pay something for that. Many public buildings can get revenue in from other sources. With other public buildings, there is an ability to raise revenues outside the core of what they are trying to achieve.

The Convener: So you will give consideration to that.

Kenneth Gibson wants in.

Kenneth Gibson: I am sorry to interrupt your flow, convener, but that is a rather bizarre answer from Mr Barclay. I do not think that police stations or fire stations, for example, raise much and I do not think that hospitals raise much either.

The point has been made—it is a point that I wanted to make also—that it is surely a bit odd for the public sector to raise more than £1 billion from itself. In effect, it has been allocated through a local government budget—even the Scottish Parliament allocates £7 million to itself. Mr Jones on the previous panel said that the system should be simplified, clarified and made more certain. If we want such a system, as I think colleagues are alluding to, we should really try to remove the public sector completely from it so that it becomes more of a business rates system. That is something that everybody would understand.

Once you have answered that question, I have another one regarding the issue of reliefs.

Ken Barclay: We have not concluded our review, so it may well be that that is where a recommendation will land. It is under consideration how wide the recommendations that we ultimately make to ministers will be as far as public buildings are concerned. I take that point on board and I will make sure that we give it the full consideration that it deserves.

Kenneth Gibson: Okay. In the previous evidence session, reliefs were compared to sticking plasters. Basically, it is as though a dyke has sprung a leak and we put a finger in here and a finger in there, but the reliefs are amounting to hundreds of millions of pounds every year. Are you looking to make recommendations that would in effect, if possible, remove or at least minimise not only the number but the extent of reliefs so that we do not have to have that situation every time there is a valuation, which of course the witnesses argued should be more frequent?

Ken Barclay: We are certainly taking frequency into account. Many people have told us that the system is too complex and that it is difficult to understand what reliefs may be available to them. Therefore, it is incumbent on us to make sure that, if there is a way of simplifying reliefs, we do so and make recommendations to that end.

Patrick Harvie: I am still a bit curious about how the review has been framed, which Elaine Smith asked about. It is not just that the front cover says that it is a "Review of Business Rates", which is an inaccurate description of the system—it is an inaccurate name. There is also only one question in the review, which is:

> "How would you re-design the business rates system to better support business and incentivise investment?"

Do we take it that your review is not at all interested in the impacts on other NDR payers or the consequences of any changes beyond the consequences for businesses and investment?

Ken Barclay: No, I think that it would be fair to say that we will be acutely aware of the consequences of any recommendations that we make. If there are implications for the public sector, clearly we need to be aware of those.

Patrick Harvie: But you have not asked any questions about that. There is only one question in the review and it is about supporting businesses and incentivising investment. Why not ask other questions about the other consequences that will flow from any changes that you recommend?

Ken Barclay: I am sorry—I am not quite with you when you say that there is only one question in the review.

Patrick Harvie: I will show you the document that I am referring to.

Marianne Barker (Barclay Review of Business Rates): That was the paper that was published in October.

Ken Barclay: Oh—I am sorry. That is the question that we asked when we sent out our call for evidence. I did not quite understand what you were referring to.

Marianne Barker: The group has also met with various bodies and that is not the only question that the group has asked. As part of the engagement that Ken Barclay outlined at the start, the group has met with a range of bodies and asked a range of questions. That paper was simply one part of the process.

Patrick Harvie: Okay. Have those to whom you have reached out proactively been asked a wider range of questions than the public?

Marianne Barker: Yes. Through the various forms of engagement, the group has asked a range of questions of different bodies. That was simply one part of the process.

Patrick Harvie: Members of the public who might want to respond to the publication from the Scottish Government about your review of what are being described as "business rates" might want to know what those other questions are that you are exploring with other bodies, whether that is the Confederation of British Industry or chambers of commerce. Should other people not know what those other questions are and have a chance to contribute?

Marianne Barker: Questions often arise from things that other people say. There is not a definitive list of questions that have been asked of everyone. In the oral evidence sessions that Ken Barclay mentioned, one body might make a point that would then lead to questions to other bodies. The questions have been formulated around different people's experience of, and expertise in, the rates system to get a breadth of evidence.

Patrick Harvie: It seems as though the people who have been invited in are part of a richer discussion and members of the public are not. What proactive steps have you taken to ensure that the organisations with which you are engaging represent not just business interests but the interests not only of other NDR payers but other people and organisations in society that may be affected in other ways by the recommendations that you eventually make?

Ken Barclay: I am afraid that I will again have to refer to my official on that.

Marianne Barker: The review group also has a mailbox. We have had representations from individuals who do not have businesses and we have met them as well. People have emailed when they have found out about the review—they have often read press coverage of it. We have had various emails from individuals and businesses that did not know about the original call for evidence but have since become involved. Where possible, they have often been invited to attend meetings with the review group so that they can make their views heard.

Patrick Harvie: So proactive steps have been taken to bring non-business voices into your discussions.

Marianne Barker: Yes. Voluntary sector organisations, for example, are not businesses but have been involved with the group's discussions.

Patrick Harvie: Is your review considering scrutiny at all? Non-domestic rates are the second-biggest tax-generating instrument available to the Scottish Government. The level of parliamentary scrutiny has generally been relatively low since devolution began—there have been few full debates about non-domestic rates. This year, there has also been some controversy about the lack of transparency in relation to the way that the Scottish Government uses the NDR pool. Has your review touched on those issues of transparency and scrutiny and will they feature in your recommendations?

Ken Barclay: It is critical that everyone who pays business rates understands better exactly—

Patrick Harvie: I think that you meant non-domestic rates.

Ken Barclay: Non-domestic rates—thank you. It is critical that the owners of properties on which non-domestic rates are payable fully understand exactly how the calculation is undertaken and what they are paying for.

Patrick Harvie: The purpose of a tax is to raise revenue to meet public needs but you still seem focused on the payers rather than the wider public interest. I see that you are not disagreeing with that, Mr Barclay.

The Convener: I seek some certainty on the engagement that the review is having, because that is at the heart of what Mr Harvie is referring to. My question was about a potential reform to the system that would exclude public sector organisations from liability under NDR fully or with a degree of conditionality. That could apply to the national health service, a huge amount of the local authority estate, the police and the fire service. Have you had discussions with each of those bodies and organisations? Give us a degree of assurance that you are proactively seeking their views on something on which I hope you will make a recommendation.

12:00

Ken Barclay: The bodies that you mentioned have not yet been engaged in the process. After today, we will have to make sure that, if it is felt appropriate, we engage them.

The Convener: That would be helpful. Where appropriate—there is confidentiality within the Barclay review—it would be helpful if you were able to write to the committee with additional information about what the engagement strategy has been with non-commercial organisations in relation to the reform of NDR. We would all like to see that.

A key ask by the Scottish Assessors Association in the previous evidence session was for more powers to compel businesses or payers of non-domestic rates to provide relevant information, including rental incomes. The association feels that there is a deficiency in its powers to compel. The Federation of Small Businesses said that less than a third of small businesses provide information on rent. It stated that there are barriers and challenges for small businesses in getting all the information to the assessors readily and in a speedy, accessible format.

Somewhere down the line, there was a meeting of minds between the assessors, who need more powers of compulsion, and small businesses, which want it to be made easier for them to provide that information. Are you looking specifically at giving assessors more powers to compel commercial organisations and all payers of non-domestic rates?

Ken Barclay: The short answer is yes. We understand that many small businesses find the process more difficult than they would like, so it is critical that we make it easier for them to understand what they are paying. However, it is also important that the assessors get access to information, so we are considering how they will be able to access more than the 30 per cent to which you refer.

The Convener: Does that include giving them more powers of compulsion and creating additional consequences, including fines?

Ken Barclay: We are giving consideration to that.

Graham Simpson: Will you give us a flavour of the other questions that you have been asking witnesses that you have met, beyond the initial question—which, as we have seen, is not accurate anyway?

Ken Barclay: In the variety of sessions that I have described, we have been keen to understand whether people understand what they are paying and how it is calculated, whether there is enough transparency in how the valuation is determined and whether people are aware of what reliefs are available. We are discussing a range of issues. We have spoken to dozens of ratepayers and the themes have been reasonably consistent around those issues.

Graham Simpson: Your initial question asked people how they would redesign the system. Can we assume that you will come up with recommendations that are a redesign, or will it be broadly what we have now with a bit of tinkering?

Ken Barclay: It is too early to say what the recommendations will be. We have looked at a huge body of evidence and have been given expert advice, and we will make our recommendations on the back of that. It is too early to say whether it will be tinkering around the edges—as you describe it—or a complete redesign.

Graham Simpson: You do not have a great deal of time left if you are going to report in the summer. It is not really that early, is it?

Ken Barclay: It is too early for us to say, at this stage, what our final recommendations will be.

The Convener: This parliamentary process that our committee is involved in can help to shape some of those final recommendations.

Ken Barclay: Yes, indeed.

Kenneth Gibson: How do you view the role of the assessors? Where do you see that role going? As you will have heard earlier, the assessors say that they need modern powers and modern information—in particular, greater access to data—if they are to deliver more effectively and efficiently. What work is being done on the role of the assessors?

Ken Barclay: We have spent time with the assessors and have listened to their recommendations; indeed, that has already been highlighted this morning with the convener’s mention of additional powers. The assessors have made what they would like to see very clear in their recommendations, and much of that was highlighted in the previous evidence session.

Kenneth Gibson: You will have heard Mr Milton’s very robust defence of there being 14 assessors in Scotland while there is only one in England, and he pointed out quite clearly that they have different roles and responsibilities. However, the Scottish Retail Consortium did not seem particularly convinced, perhaps because of the billing issue. Will you be looking at billing across different assessors? Again, it comes down to the issue of efficiency. If a retailer had five outlets, for example, could it be recommended that the headquarters in Scotland—the largest outlet or something like that—be billed instead of there being five individual bills? After all, the money that is raised goes into a central pot. Is there any scope to look at whether there can be more efficiency in billing, given that this brings us back to the simplification issue and to matters that frustrate many of those who are paying rates at the moment?

Ken Barclay: The answer to your question is yes, we are doing that. We have given quite a bit of consideration to how we might best go about digitising the collection of bills to simplify collection, make it easier and—I hope—make collection rates better.

Kenneth Gibson: Thank you.

Elaine Smith: On 23 February, our colleague Mike Rumbles MSP called in the chamber for the review consultation to be reopened. He had specific reasons for doing so, and he seemed to attract some sympathy from the minister responsible. What is your view on reopening the consultation, not just for the reasons that Mr Rumbles gave but in light of the questions that the committee has asked this morning about the remit, the terms of engagement and the fact that the initial question focused only on business?

Thinking back to the point that Patrick Harvie made, I wonder whether people were actually put off responding to the consultation because they might not have seen how they fitted with it. Communities, for example, might have felt that they could not respond, when in fact they might have been able to put forward ideas for their local communities instead of ideas about business or business growth.

Given Mr Rumbles's comments, what we have heard in evidence this morning and the questions that you have heard from the committee, would you be amenable to reopening the consultation?

Ken Barclay: I wonder whether that is a question for the minister to whom I will be reporting—

Elaine Smith: I am sorry to jump in, but I am specifically asking you as the person who is carrying out the review and who did the consultation whether at this stage such a move would help your work. It might be a decision for the minister and I know that, for various reasons, we cannot get into exactly what evidence you have received, but as the person who is doing that work, would such a move be helpful, instead of our having a review that at the end of day might not cover all the aspects properly?

Ken Barclay: It would be entirely appropriate for me to take on board the recommendations that have been made in this morning's meeting and to determine whether we can accommodate them within the timeframe that we are working to. If we can, we will—and if we need more time, we should consider whether to take more time.

Elaine Smith: If the committee were to recommend that it might be an idea for the consultation to be reopened briefly, would you be able to accommodate that recommendation within the timeframe, or would you need more time?

Ken Barclay: I will refer that question to Marianne Barker.

Marianne Barker: I should point out that although the consultation was open for only a set period of time, late submissions were accepted. Indeed, where businesses have wanted to engage with the review group, that engagement has continued, even if their submissions were made after the consultation closed.

Although the question in the consultation referred specifically to business rates, we had a number of submissions from people who do not pay business rates or who are exempt. For example NFU Scotland made a submission; as Mr Harvie pointed out, agricultural land is exempt, but the NFUS recognised that the question could still apply to them.

Elaine Smith: Sorry to jump in again, but there may have been groups or people out there who did not feel that it was appropriate to respond to the consultation, because they were put off by the wording of the question. Although it is nice that the odd group thought that it could go a bit wider than the question, others may have been put off by it.

Marianne Barker: In my previous experience as a civil servant I worked with the non-domestic rates system and found that businesses sometimes thought that the term "non-domestic rates" did not apply to them. If the question had asked about non-domestic rates, some businesses would have thought that it did not apply to them. They recognise the term "business rates" because it is in more common use.

Kenneth Gibson: Sorry, but I am not convinced by that.

The Convener: Can I get a bit of clarity on this? I am the MSP for Glasgow Maryhill and Springburn. NHS Greater Glasgow and Clyde recently appointed a new chief executive, Jane Grant. If, in the next few weeks, the health board wished to make a detailed submission to the Barclay review, would it be accepted, analysed and considered?

Ken Barclay: Yes.

The Convener: Would the same go for any organisation in a similar situation?

Marianne Barker: Yes. Anyone who has approached the review group and asked to have their views heard has had those views accepted.

The Convener: There may be discussion between the Barclay review and ministers on a timetable for publishing the findings, conclusions and recommendations. Following our evidence sessions, the committee will have to discuss its views, and we would rather get it right than have to fit in with a timescale. The committee is moving towards a position in which we want the Barclay review to take a more proactive approach to organisations. I see nodding heads among fellow committee members. Whether it is accepting late submissions or reopening the consultation, we are talking about proactively going out and speaking to those bodies.

Kenneth Gibson: I support what you are saying, convener. I add that I think that businesses are well aware of what the terms “non-domestic rates” and “business rates” mean.

My concern is that if nearly half of non-domestic rates are from the public sector, any direct contact with organisations should be weighted more towards the public sector. If we do not do that, we will end up with a distorted report that does not reflect the true position. I think that that is the position of members of this committee.

The Convener: I will give my fellow committee members an opportunity to add to the discussion before we move on.

Patrick Harvie: I welcome the panel saying that the review is still open to submissions from all comers—if I understood you rightly—so it seems odd that the call for submissions in July last year said that comments should be submitted by 7 October 2016. Why set such an early closing date when it continues to be possible to accept submissions? What will the closing date now be?

Ken Barclay: We will have to give people time to respond. Let us consider the committee’s observations and determine what would be an appropriate timescale for that.

Graham Simpson: I wanted to reiterate the points that have been made. If you are going to review the non-domestic rates system, you must include the whole system. You should not focus on just one aspect of it, because, if you do, you leave yourself open to huge criticism that you have not done a thorough review. If the committee were to do a review like that, it would be lambasted—and rightly so. We would have to take views from various sectors throughout Scotland. You really need to open up the review again so that when you produce your recommendations they are thorough and people have confidence in them, and so that the recommendations are not just narrowly focused on business, because the system is not just about business.

12:15

The Convener: I see Mr Barclay nodding his head. I think that that was a statement by Mr Simpson as opposed to a question.

We heard from the Federation of Small Businesses about the way in which relief systems work, the small business bonus and valuations all being fully based on property, and the FSB floated the idea of there being some connection with profitability or turnover, for example. I am not particularly convinced by that, because I am unsure how we would distinguish between a business that is poorly run and managed and that has a poor business model, and a business that is vulnerable, fragile and essential to the community and needs support. Both might have similar profitability and turnover data, but they will be very different in nature. I am not sure how that would be built in. Could you say something about whether you are wedded to the review being entirely property based?

You have already mentioned that it is about linking to economic growth. If you are focusing on economic growth, what economic data will you look at? Will those results be published?

Will you address the FSB’s concerns, with the caveat that I have put in, and, given that it is about economic growth, could you also say whether data will be published that the committee can analyse, so that there will be a baseline to look at once the recommendations have been implemented, to see whether they are successful?

Ken Barclay: It is critical that any recommendations that we make that result in a change to the tax are fully costed and fully understood and that the economic justification for them can be made. They need to be open to the scrutiny that you have described. That will definitely be part of our ultimate findings.

The Convener: On what the Federation of Small Businesses said—

Ken Barclay: We are still considering whether the tax should simply be a property tax or whether it could be another form of tax. Most of the time that we have spent so far has been spent on gathering information. We now have around 60 different lines of inquiry open, so we have not closed down virtually any of the issues that have been raised in the consultation. We are still considering whether we can have a property tax and some element of profit tax from a business that is a non-domestic rate payer.

The Convener: Will you take on board my concern about how to distinguish between a business with a poor business model that is poorly run, provides a poor, non-essential service and gets additional tax relief and a business in respect of which economic indicators might trigger all the same criteria, but is an essential one to a local town centre or village? On Maryhill Road or in Springburn town centre in my constituency, there are essential businesses that need support and might get additional relief with those indicators, but so might some really poorly run businesses elsewhere. How can we square that circle?

Ken Barclay: That is a difficult question to answer at this stage. If we get down to looking at individual businesses or properties—the tax, as established, is a property tax—it would be very difficult for us to determine what was perceived to be a critical business versus a non-critical business. However, it is clear that the implications of any recommendations that we make will have to be thought through and that any unintended consequences will need to be considered.

The Convener: We received evidence this morning from the Scottish Assessors Association about the certainty, reliability and visibility of a property tax, which are its key strengths. The property cannot be hidden. Are we talking about a property tax plus something else, rather than moving away from a property tax in any future reform? I would be concerned if the concept of a property tax was ditched altogether.

Ken Barclay: I go back to the fact that we have not determined that yet. We are still considering whether it would be appropriate to supplement a property tax with something else.

The Convener: You answered the question when you used the word “supplement”. That is helpful.

Usually, committee members try to catch my eye to ask questions, but there is currently a tumbleweed moment.

Kenneth Gibson: We have covered all the bases.

Patrick Harvie: We might just be underwhelmed.

The Convener: It is nice of Mr Harvie to say that. I will ask another question, Mr Barclay, as the issue is important. Whether we are underwhelmed or otherwise, we had a 90-minute session with the other witnesses, who raised a number of key points.

We heard from a representative from COSLA earlier, who talked about a direction of travel in relation to not just assigning but giving power over non-domestic rates to local authorities. He cited a number of examples of a very slow but incremental direction of travel and said that they wished that to continue. Will the Barclay review look proactively at how we can not just assign more taxation to local authorities, but give them more powers on non-domestic rates?

Ken Barclay: The answer to the question is yes. We are still considering that. Equally, this morning, we heard from other people who were opposed to that view. There is a lack of consensus on that issue, but we are still considering whether we should devolve further revenue-raising powers to local authorities.

The Convener: That is helpful. Earlier, when I asked about giving more power to local authorities, I said that I appreciated that some business organisations might be concerned by that, but that safeguards could surely be built in. The FSB started to allude to what such safeguards might look like, but others were just opposed to the idea. Would you consider giving a degree of additional power to local authorities, but building in some safeguards along the way?

I will ask a second question. I am conscious that, no matter how we cut this up—and as the assessors said—what we are talking about is how to raise £2.8 billion in non-domestic rates. Larger retailers talk about the large business supplement impacting upon them and they are clearly clamouring for mitigation on that. If we do that, however, then other businesses will have to shoulder some of the burden of raising £2.8 billion. We cannot spend the same pound twice. I seek reassurance that small and large businesses will be treated equitably. I do not want any mitigation to be put on to the shoulders of, and be a burden to, some of our fragile small businesses. How do we square that circle?

Ken Barclay: We will look at a number of areas in which we feel that we can raise tax, and there will be some in which we feel that we can relieve current taxpayers. The net effect must be that £2.8 billion is raised, as has been highlighted. I take the convener’s point, but we have not yet determined whether the recommendations that we will make will result in final changes to any of the taxpayers that we are looking at.

The Convener: We will move to our final question. COSLA spoke about a direction of travel that would give more powers to local government. Do you agree that there should be such a direction of travel?

Ken Barclay: We have not determined that yet, I am afraid.

The Convener: Not even conceptually or philosophically? You do not have a view on that?

Ken Barclay: We have not yet determined whether that would be the right way to go.

Elaine Smith: Are you looking specifically at that?

Ken Barclay: Absolutely, yes.

The Convener: I have no other bids for questions. I thank Ken Barclay and Marianne Barker for coming along this morning—it is now this afternoon. There was a bit of delay before you were able to give your evidence and I thank you for your time. The committee looks forward to having you back once your recommendations are published. That would be quite helpful. Perhaps we will have more questions at that point.

12:23

Meeting continued in private until 13:05.

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

All documents are available on
the Scottish Parliament website at:

www.parliament.scot

Information on non-endorsed print suppliers
is available here:

www.parliament.scot/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@parliament.scot

The Scottish Parliament
Pàrlamaid na h-Alba