



**FIELD**

**Business Rates Press Conference  
22 June 2005**

## **Speaker contributions Business Rates Press Conference 22 June 2005**

Ron Hewitt, Chief Executive Edinburgh Chamber of Commerce will say:

Good morning ladies & gentlemen, welcome to the Edinburgh Chamber of Commerce Press conference on business rates. My name is Ron Hewitt, Chief Executive of Edinburgh Chamber and I am joined by some of our members and partner stakeholders in the City of Edinburgh's economy. Our purpose this morning is to highlight how the Scottish Executive is unfairly handicapping Scottish business and in doing so holding back growth. I would like to introduce Dr Ian Docherty, from Glasgow University School of Business & Management. Dr Docherty joins us today as the leading expert in Scotland on City Regions. Next to Ian is Jim Hunter Facilities Director Standard Life. Standard Life is Edinburgh's largest business employer. On my far right is Stephen Winyard, Managing Director of Stobo Castle Health Spa. At the forefront of Scotland's hospitality sector, Steven directs Scotland's best known and most successful Destination Hotel Spa. And of course on my right is Cllr Donald Anderson, who helped inspire the planning and commitment that has enabled Edinburgh to become one of the most attractive and successful cities in the UK. Donald is of course the leader Edinburgh City Council. Success in our work is very dependent on partnership. We don't always agree with the City Council but on this issue there is a high level of agreement.

The format this morning is that each of our speakers will make short contributions on aspects of our theme, and after a brief summary we will take

questions from the floor as a panel. But first I'd like to take this opportunity to set out the issues.

Edinburgh is the engine room of the Scottish economy. Whilst the rest of the world has seen recession threaten numerous times, the Edinburgh economy has remained vibrant. Indeed, over the last decade and a half our City's contribution has kept the overall Scottish performance clear of recession. And it's easy to see why. We have some of the finest minds building world-leading businesses. And we enjoy a location that is the envy of the world; a beautiful landscape, renowned educational institutions and an unparalleled quality of life, with a cultural environment that is unsurpassed; a secure and safe environment to bring up a family. We are rightly proud of our city, and not surprisingly we develop and attract workers of the highest skills and commitment. Edinburgh is a great place to live and a great place to do business. And long may it continue that's why we are meeting today to ensure that it remains that way.

With the G8 conference due to be held in the city on 8<sup>th</sup> July we are reminded that we operate within a global market. Indeed, at every opportunity, the Scottish Executive reminds us that businesses in Scotland have to be efficient and entrepreneurial if they are to compete globally.

The Scottish Executive's vision of economic prosperity for Scotland is however, at odds with their behaviour with regard to business rates. They state that economic growth is essential, if we are to pay for the quality of

social services, education and health expected in a successful country. We agree. However, the action by the Scottish Executive to abolish the Unified Business Rate mechanism in 2000 the poundage (that is the amount each business pays against its rateable value) has hindered growth. And does not help Scottish businesses to compete globally. Since it was introduced, the rate has risen against the uniform business rate enjoyed by our competitors in England and today all Scottish businesses are paying at least 9% more than their competitors South of the Border. As we'll hear this morning for some businesses the disadvantage is even greater.

Additionally, the business rate income does not belong to the local authority. It is collected on behalf of the Executive, who then redistribute the income (or some of it) through the rate support grant mechanism. Cllr Anderson will tell you how Edinburgh businesses paid almost *£250 million* in business rates last year yet *£82 million* of that went straight out the window of the Edinburgh economy.

As an organisation with a long history of compassion alongside economic amelioration, we welcome the principle of sharing wealth to help those in need. However, failure to reward success is a barrier to growth and will disincentivise. England has responded to this and introduced the Local Authority Business Growth Incentive Scheme, but it has not been adopted in Scotland. Again, Donald Anderson will tell us more.

If you invest in strong City based economies such as Edinburgh, Glasgow and Aberdeen with a capacity for growth they will grow stronger. Importantly, their hinterland will benefit as employment draws in people to the central economy. Edinburgh's success feeds East, West and Midlothian, the Borders and Fife and to some extent Glasgow, not just the City.

So firstly, I would like to call upon Dr Iain Docherty for his insight into why we must develop our City Regions if we are to ensure our economic success.

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*Dr Iain Docherty Glasgow University School of Business and Management will address the following points:*

From about 1945 - 1995, Scottish economic policy tried to decentralise the economy as much as possible

This worked in the short term, but left big structural problems behind, such as lack of critical mass in key sectors

Across Europe (and most of North America) the economy is reurbanising very strongly

Scotland is no exception - Glasgow and Edinburgh are roughly half the economy (with oil and whisky providing much of the rest)

... so the future is urban, and Scotland has to compete at this level

This means it has to support its big winners, especially Edinburgh...

... which means the city needs more resources and financial autonomy...

... with business rates a means to achieve this.

I will quote the classic line from the recent report by Professor Michael Parkinson on regional economies, that "we found no example of a successful region without a successful city at its heart"

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Ron Hewitt:

Thank you Ian. I would just like to take this opportunity to remind us all that Edinburgh is the largest Financial Services City outside London and therefore, second largest in Europe.

This year the non-domestic rates bill will raise over £2 billion pounds in Scotland. I'd now like to ask Jim Hunter to tell us how this inequality adversely affects Scottish businesses.

*Jim Hunter, Facilities Director, Standard Life, will say:*

As Ron mentioned, Standard life is Edinburgh's largest private employer with around 7200 staff in Edinburgh, based in the city centre. We derive great benefits from this strategy in terms of staff recruitment and retention along with operational effectiveness and flexibility.

Staff appreciate having easy access to all the amenities the city centre has to offer: shops, restaurants and good public transport as well as the chance for many of them to walk, jog or cycle to work. Good for them and good for our City's environment. We have quality buildings, which we hope enhance Edinburgh's architectural heritage in three main campuses: Exchange, George Street and Canonmills. Staff can move between these buildings with ease and speed in our own shuttle bus, which reduces travel time to a minimum but provides us with a lot of operational resilience.

Edinburgh is a great place to live and work but commercial property and consequently rents are the most expensive in Europe after London. Business rates are based on rental values so this is a real double whammy. To make matters worse we pay 46.55p in the pound in Scotland against 41.5p in England, where many of our competitors are based.

Standard Life is in a very competitive market place in Life & Pensions, Banking, Healthcare and Investment. Our reputation for excellent customer service is founded on having great staff working efficiently based here in Edinburgh. Some of our competitors are off shoring work to Asia to cut costs.

Our customer research clearly tells us that customers want to deal with knowledgeable, experienced staff based in the UK. We must ensure we do not continue to penalise Scottish Businesses because of this anomaly in Business Rates.

It is not right, not fair, not sustainable and must be changed.

Ron Hewitt:

Thank you, Jim

It may be a surprise to you that not all businesses pay the same business rate. Also that Business Rates do not directly pay for services received from their local authority or that they are not commensurate with the usage of those services. Some of the businesses taxed differently are in the hospitality sector where they are rated on turnover. I'd now like to ask Stephen Winyard to explain how his business pays more rates than factories many times the size of his premises, and to tell us how these charges bear no relation to local authority services.

*Stephen Winyard, Managing Director Stobo Castle Health Spa will say:*

GOOD MORNING LADIES & GENTLEMEN.

MY NAME IS STEPHEN WINYARD. I AM MANAGING DIRECTOR OF STOBO CASTLE HEALTH SPA.

STOBO CASTLE WAS LYING DERELICT AND FACING AN UNCERTAIN FUTURE WHEN MY FAMILY ACQUIRED THE BUILDING IN 1975. MANY MILLIONS HAVE BEEN SPENT OVER THE YEARS CONSOLIDATING STOBO'S POSITION AS THE ONLY DESTINATION SPA IN SCOTLAND. WE COMPETE AGAINST 11 OTHER DESTINATION SPAS IN ENGLAND. STOBO NOW PROVIDES AROUND 200 SUSTAINABLE JOBS ALL YEAR ROUND, BRINGING MEANINGFUL BENEFITS TO THE LOCAL, RURAL ECONOMY.

STOBO'S RATEABLE VALUE HAS RISEN FROM £240,000 LAST YEAR TO A STAGGERING £443,000 FROM 1 APRIL THIS YEAR - THAT IS AN INCREASE OF 84.6%!

WHEN COMPARISON IS MADE TO SCOTTISH BUSINESS RATES VERSUS ENGLISH BUSINESS RATES SCOTTISH EXECUTIVE MINISTERS NORMALLY SAY THAT THE HIGHER RATE IN THE £ IN SCOTLAND IS BECAUSE SCOTTISH RATEABLE VALUES ARE LOWER THAN ENGLISH RATEABLE VALUES.

THIS IS NOT THE CASE AT STOBO. THE VALUATION SCHEME FOR DESTINATION SPAS IS EXACTLY THE SAME IN ENGLAND & SCOTLAND. SO WITH THE HIGHER RATE IN THE £ IN SCOTLAND, WE ARE ACTUALLY PAYING 10.3% MORE IN RATES THAN OUR COMPETITORS IN ENGLAND. THIS IS TRANSPARENTLY UNFAIR.

IN ADDITION TO THIS, THE TRANSITIONAL RELIEF SCHEME FOR SCOTLAND IS DUE TO END AFTER 3 YEARS, IE. ON 31 MARCH 2008. IN ENGLAND, MY COMPETITORS WILL ENJOY TRANSITIONAL RELIEF FOR 4 YEARS UNTIL 31 MARCH 2009 - THIS IS ALSO UNFAIR ON SCOTTISH RATEPAYERS SUCH AS MY COMPANY.

AS I SAID EARLIER, WE HAVE INVESTED HEAVILY IN OUR BUSINESS SINCE 1975. THE LATEST LARGE INVESTMENT WAS A £6 MILLION POUND SPA EXTENSION WHICH WE COMPLETED - ON TIME AND ON BUDGET - IN AUGUST 2003. OUR AWARD-WINNING SPA HAS CONTRIBUTED GREATLY TO THE QUALITY OF SCOTTISH TOURISM FOR THE PAST 27 YEARS.

OUR CURRENT AND FUTURE BUSINESS RATES SITUATIONS ARE SO UNFAIR THAT WE HAVE ABANDONED PLANS TO CREATE A STOBO MARK 2 IN SCOTLAND. INSTEAD WE WILL LOOK SOUTH OF THE BORDER FOR A SUITABLE VENUE - BY THE WAY, WE'RE TALKING ABOUT A £20 MILLION INVESTMENT. IS THIS REALLY WHAT JACK MCCONNELL WANTED WHEN HE ABANDONED THE UNIFIED RATES SCHEME, AS FINANCE MINISTER IN APRIL 2000?!

WE DON'T MIND PAYING BUSINESS RATES AS A CONTRIBUTION TO THE LOCAL ECONOMY, BUT WE DO MIND PAYING WHEN THE PAYMENTS ARE SO OBVIOUSLY UNFAIR.

NOTES:

2005 REVALUATION

PEEBLES HYDRO £395,000 (272 BEDSPACES = £1450 PER BEDSPACE)

(VALUE UP BY 16.2%) (WAS £340,000)

MACDONALD HOTEL, CARDRONA

£340,000 (200 BEDSPACES = £1700 PER BEDSPACE)

(VALUE UP BY 23.6%) (WAS £275,000)

STOBO CASTLE £443,000 (77 BEDSPACES = £5,750 PER BEDSPACE)

(VALUE UP BY 84.6%) (WAS £240,000)

RATE IN THE £ COMPARISON

RATE IN THE £ (SCOTLAND)  $46.1P + 0.45P^* = 46.55P$

" " (ENGLAND)  $41.5P + 0.7P^* = 42.20P$

" " (WALES)  $42.1P + 0.0P^* = 42.10P$

\* SMALL BUSINESS RATES RELIEF SUPPLEMENT

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Ron Hewitt:

Thank you Stephen.

Finally, I'd like to ask Donald Anderson to tell us how the current distribution of Business rates taxation hinders growth within the City.

***Cllr Anderson will tell you how Edinburgh businesses paid almost £250 million in business rates last year yet £82 million of that went straight out the window of the Edinburgh economy.***

*The redistribution of non domestic rates is embedded in a complex system of local government grant distribution.*

*Some authorities gain; they receive more from the national pool than the businesses in their area pay in.*

*Some authorities lose; they receive less than is paid in to the national pool*

*The principle of this is clear:*

*There are variations between local authority areas and their ability to raise income from taxation, in this case business rates.*

*The redistribution attempts to equalise this position by taking from some and giving to others:*

*The City of Edinburgh Council loses, heavily, from this redistribution.*

*In the period from 1996/97 to 2004/05 around £700m of the business rates raised by businesses in the City have been redistributed.*

*All things being equal this system could simply be viewed as a way of ensuring all local authorities have a fair allocation of Scotland's business rate income.*

*The point is however, that all things are not equal; Edinburgh's contribution is made as a result of growth in its economy. There are cost pressures placed on the City of Edinburgh Council for supporting and sustaining that growth in the delivery of local services.*

*These funding pressures should be met by the growth in business rates.*

*But the current system of local government finance does not recognise this.*

*This needs to be addressed as a matter of urgency.*

***England has responded to this and introduced the Local Authority Business Growth Incentive Scheme, but it has not been adopted in Scotland. Again, Donald Anderson will tell us more.***

*The Business Growth Incentive Scheme is an initiative which recognises the key role that local authorities play in the growth of the economy.*

*It is aimed at incentivising authorities to encourage local economic growth.*

*The scheme allows local authorities in England and Wales to retain a share of non domestic rate yield which is over and above an established threshold.*

*A scheme such as this, which incentivises growth, has to be commended.*

*However, for Edinburgh, the critical requirement of any scheme designed to allow a greater local retention of non domestic rate income, is that the level of return enabled by the scheme is significant enough to make a real difference to the services delivered by the City of Edinburgh Council and the pressures on these services.*

*This may be achieved by adopting features of the English Business Growth Incentive Scheme.*

*However, ultimately we need a Scottish incentive scheme designed to meet Scottish needs and the pivotal role played in the Scottish economy by city regions such as Edinburgh.*

**Finally, I'd like to ask Donald Anderson to tell us how the current distribution of Business rates taxation hinders growth within the City.**

*The City of Edinburgh Council faces a range of funding pressures.*

*These impact on its ability to deliver the key council services which support and sustain growth in the City and which are affected by that growth.*

*The pressures impact on all Council services.*

*They affect*

- *the Council's ability to maintain its intensely used road network to national standards;*
- *our ability to make the major changes needed to public transport to ensure that growth in the economy is not slowed down by a congested city centre (tram gap £100m);*
- *our ability to meet increasing demands on education and other services emerging from rapidly growing areas of the City (Leith/Granton);*
- *our ability to ensure that affordable housing available to meet the needs of a growing population and workforce;*
- *our ability to sustain expenditure on the cultural assets/festival and major events which contribute heavily to economic growth;*
- *our ability to protect and improve core City Centre infrastructure, sustaining Edinburgh's position as a gateway to Scotland and a major tourist destination;*

- *our ability to deliver the core services essential to vulnerable members of our community where spiralling land and wage costs, as a result of economic growth, make this difficult. (For example, the purchase of care home places for elderly members of our community.)*
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Ron Hewitt:

Thank you Donald

That completes our presentations. We have heard that thriving regional cities deliver real prosperity. We have heard that the current business rate in Scotland disadvantages Scottish businesses against those South of the border by at least 9%. The hospitality and leisure sectors are further penalised. And our main cities in Edinburgh, Glasgow and Aberdeen receive too little of their contribution to ensure that their growth potential is not fettered.

This conference's aim is to kick start a vigorous campaign to remove this iniquitous inequality and allow Scottish businesses to compete fairly. We are not challenging the principle of taxation. Everyone in business understands that this mechanism provides the things that make our society civilized. All we are asking today, is the chance to compete fairly and that our major contributors to the economic growth receive a fair share.

I reiterate an unfair business rates burden is bad for business and what's bad for business is bad for Scotland

It is wholly unacceptable that the Scottish Executive is putting Scotland at a competitive disadvantage. We might have hoped that the Scottish Executive would help us win, but this is the one match that Scotland would settle for a draw with England.

The panel would be delighted to answer any of your questions.

Ron Hewitt:

Thank you. If I may draw matters to a close, for the time being, for our campaign moves on from here. We plan to join forces with the other great cities in Scotland and demand a return to the uniform business rate and improved share of their business rates contribution and we will not let up until the campaign succeeds. Thank you for taking the time and trouble to be with us today.

SUPPORTING QUOTATIONS:

***"Business rates are one of the key economic tools available to Holyrood. It is therefore absurd for the Executive to talk about boosting competitiveness, whilst at the same time keeping business rates higher than in England and thereby putting Scots companies at a substantial competitive disadvantage. It is vital that the Executive supplement their rhetoric with action and take the long overdue step of cutting rates to at least the level in England."***

David McLetchie MSP 22.6.05

***"Edinburgh is not just Scotland's Capital City but a Global player. It's the engine and dynamo for Scottish economic growth. The competition is not within Scotland but without, whether elsewhere in the UK or beyond. For it, though, to compete in a global economy, it requires to be competitive. An unfair business rates burden not only disadvantages businesses but makes us uncompetitive. What's bad for Edinburgh is bad for Scotland. The city's rates burden must be unshackled to let all Scotland soar high. "***

Kenny McAskill MSP 22.6.05

North British Trust Hotels Limited currently operate some 24 coach tour hotels in Scotland and England. In the year 2000; they had 26 hotels;  
4 of which were in England - in Eastbourne; Retford; Harrogate and Scarborough.

Following the 2000 Revaluation, an exercise was carried out for North British Trust Hotels by Peter Henry (Chartered Surveyor, Edinburgh), into the value levels between their Scottish and English hotels. The result of the exercise indicated that, generally, the Scottish Assessors' hotel valuation scheme produced values which were higher than the values arrived at by the Valuation Office Agency hotel scheme in England. This made a nonsense of the assertion by Scottish Executive Ministers that the rate in the £ in Scotland is higher than the rate in the £ in England because Scottish values are lower.

The detailed evidence of North British Trust Hotels' situation was put to Scottish Executive Ministers in October 2002, by Paddy Crerar (Managing Director of NBT Hotels) and - when they eventually responded - in March 2003 - North British Trust were advised that the Finance Minister was not prepared to intervene in the matter, and that they should appeal against their Scottish valuations in the normal way.

The situation as at the 2005 Revaluation is still being appraised; but from initial investigations; it seems likely that the same valuation differential exists. In other words, there is no good reason for the rate in the £ in Scotland to be higher than that in England, as far as hotels are concerned.

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