ANNEX B

Shell

Date and Time of Engagement	Friday 10 March 2017 12:00 – 13:00
Where	Royal Dutch Shell Shell U.K. Limited 1 Altens Farm Road, Nigg Aberdeen, AB12 3FY,
Key Message	**The Scottish Government is committed to a sustainable future for the oil and gas sector in Scotland and to working in partnership to secure the total value added for the economy and the industry.**
Who	**Steve Phimister - Upstream Director UK & Ireland** **<u>WB 6 March is Scottish Apprenticeship Week:</u>** • Modern Apprenticeship week is a celebration of the success of Scotland's Modern Apprenticeships and everyone associated with the programme which has become a key element of our approach to economic development and youth employment
What	Meeting with Royal Dutch Shell
Why	• **Steve Phimister was appointed as the new Upstream Director in UK & Ireland in May 2017** – this is an opportunity to hold a meeting with Steve to understand Shell's ambitions for the UKCS given their recent asset sales, and to meet with Steve ahead of the forthcoming MER UK Forum (potentially 17th/24th May). [REDACT]
When	**12:00 – 13:00; Friday 10 March 2017 (including a working lunch)**
Supporting Official	[REDACT]**Oil and Gas Unit,** [REDACT] [REDACT]**, Head of Offshore Oil and Gas,** [REDACT]
Media Handling	This is a private meeting.
Dress code	**Business attire**
Greeting Party and specific meeting point on arrival (if at a non SE Building)	[REDACT] **- will meet the Minister on arrival** **Personal Assistant to Vice President UK & Ireland** **Shell U.K. Limited**

	1 Altens Farm Road, Nigg, Aberdeen, AB12 3FY, [REDACT]
Specific entrance car/parking arrangements	When the car arrives at the gate house security staff will provide directions to the car park and to phase 5 reception.
Briefing Contents	**Annex A – Summary** **Annex B – Company Background** **Annex C – Biography** **Annex D - Oil and Gas FMQ** **Annex E – Apprenticeship Levy** **Annex F – Business Rates**

ANNEX A

PURPOSE: Briefing – Royal Dutch Shell

[REDACT]

Oil & Gas UK's (OGUK) Business Outlook 2017 - published on 7 March 2017.

- **Slowly improving confidence in the sector**, with improvements in costs and productivity over the past two years leaving the industry in a better place to attract new investment to the basin.
- **Challenging messages** around total capital investment, supply chain revenues, accelerating decommissioning, and record low levels of exploration and investment.
- **There will be further pressures on the supply chain as it may be some time before there is a material upturn in investment in exploration and new developments**.
    - Oil and gas production continues to rise (increased by 5% in 2016)
    - Unit costs are improving (fallen by half over the last two years).
    - Exploration remains at record lows
    - Industry forecast total spend of just over £17 billion this year, around 20% lower than last year.
    - Supply chain companies have seen an average 30% fall in revenues over the last two years.

Shell Recent Activity

Shell currently provides around 12% of the UK's current total oil and gas production.

- In January 2017, Shell boosted Merger & Acquisition activity by selling £3bn ($3.8bn) worth of assets to Chrysaor; assets which produced over half of Shell's UK North Sea Production in 2016 (115,000 boe/d).
    - Shell's plan is to divest £22.8bn worth of assets globally over the period 2016-18.
- The Brent field decommissioning plan has been submitted for public consultation. The project, which is expected to run until 2026, is estimated to cost $4.2bn (Wood Mackenzie, March 2017).
- Shell closed its finance operations office in Glasgow at a loss of 380 jobs (BBC Scotland, 23 November 2016). The jobs are to be moved to Chennai, India and Kuala Lumpur, Malaysia.
    - Between 2015 and 2016 the company has shed 12,500 jobs globally in response to low oil prices (The Guardian, 25 May 2016).

Shell hails Budget as 'another step forward' for North Sea, 8 March, Energy Voice

- Steve Phimister, Shell's Vice President for UK Upstream, said: *"Today's announcement is another step forward in helping to meet the UK's goal of maximising the economic recovery of oil and gas assets in the North Sea. The oil and gas industry will continue to work in partnership with the government and the OGA to ensure a safe, competitive and sustainable basin in the UKCS."*

On 3 March, the Cabinet Secretary for Finance and Constitution wrote to the UK Chancellor to outline priority measures, which should be introduced at the 2017 March Budget on 8 March. The key economic levers remain with the UK Government, and further support is required

- Finally, the Chancellor has listened to calls the Scottish Government and the industry have been repeatedly making for some time to ensure that "the right assets are in the right hands", it is crucial this turns into actions swiftly rather than another talking shop.
- The UK Government first committed to reforming decommissioning tax relief in December 2014 in their Driving Investment plan.
- The Scottish Government has previously recommended proposals focused around increasing activity in late-life assets to ensure their full potential is realised, protecting critical pieces of infrastructure, and driving forward much needed new investment in the North Sea.
- It is clear that without greater investment and activity we risk losing vital capacity and skills that will support production and ensure we maximise economic recovery from the North Sea.
    - **Action is required to improve access to decommissioning tax relief**, ensuring that the right assets are in the right hands, and **deliver the UK commitment to provide loan guarantees,** which are of vital importance to both the supply chain and ensuring critical infrastructure remains operational.
    - With around £17.6 billion expected to be spent in the North Sea over the next decade on decommissioning, the **UK should join Scotland in funding projects to help secure work and cut costs in this emerging field.**

Apprenticeship Levy (Further briefing is located in Annex E)

- During the consultation employers asked to see a more flexible approach and for Levy funds to be used to protect the development of the apprenticeship offering.
- The UK Government announced in November that the Scottish Government would receive £221m next year as a result of the levy
- **This is not £221m of additional money coming to Scotland** through the Apprenticeship Levy
- We estimate that **the cost to the public sector in Scotland will be around £73 million per annum** - when you take that into account the Scottish Government's spending powers are actually £30 million down as a result.
- All of the funds raised through the Apprenticeship Levy will be invested by Scottish Government in skills, training and workforce development to meet the needs to employers, the workforce, young people and Scotland's economy.
- The Minister for Employability and Training announced, as part of the budget, that a £10 million Flexible Workforce Development Fund will be introduced
- The details on how the fund will operate is still being finalised, but this funding is committed.
- **You have a meeting arranged with Minister for Employability and Training to discuss the Apprenticeship Levy and its impact on the sector on Thursday 16 March.**

The Scottish Energy Strategy and Climate Change Plan

- The draft Energy Strategy, published for consultation on the 24th January, sets out the SGs energy vision to 2050.
- The SG published the draft Climate Change Plan, on the 19th January setting out how we intend to meet the emission reduction targets in the period 2017-2032.
- Our draft Energy Strategy conveys a clear message to the oil and gas industry – the recovery of North Sea oil and gas as a highly regulated source of hydrocarbon fuels will continue to be a priority for this government for decades to come.

Action on Aberdeen Business Rates

- We have taken action to support businesses within the North East – Our competitive business rates package targets support where it is most needed, capping rates increases for offices in Aberdeen and Aberdeenshire as the local area most adversely affected by changes in the oil and gas sector.
- Councils are able to apply further rates reductions, and we continue to work with Aberdeen City and Aberdeenshire Councils to inform this consideration.

Annex B - Background

[REDACT]

ANNEX C – BIOGRAPHY

	**Steve Phimister - Upstream Director UK & Ireland** Steve has a varied background in technical, commercial and asset management roles working with Shell for nearly 25 years across Europe, Australia, Asia and the Americas. He has also worked in Shell's Upstream, Downstream and Integrated Gas businesses. Returning to the UK earlier in 2016, he led a multi-functional team successfully integrating the upstream businesses of Shell and BG in the UK and Ireland. Prior to this, Steve spent seven years leading a period of strong growth for Shell in Australia, including roles as GM Non-Operated ventures, GM Unconventionals and GM Business Development.

Issue:

- **On 8 March – 2017 March Budget announced the publication of a discussion paper and the establishment of a panel of industry experts to investigate the use of tax incentives to assist sales of oil and gas fields, helping to keep fields productive for longer.**
- **On 7 March, Oil & Gas UK (OGUK) published their Business Outlook 2017:**

* Oil and gas production continues to rise (increased by 5% in 2016)
* Unit costs are improving (fallen by half over the last two years).
* Exploration remains at record lows
* Industry forecast total spend of just over £17 billion this year, around 20% lower than last year.
* Supply chain companies have seen an average 30% fall in revenues over the last two years.

- **On 6 March**, Centrica is looking to **recruit 50 people in Aberdeen** as looks to build a "sustainable" exploration and production (E&P) business in the North Sea and its wider European operations.
- **On 3 March, the Cabinet Secretary for Finance and Constitution wrote to the UK Chancellor** to outline priority measures, which should be introduced at the 2017 March Budget on 8 March.
- **On 3 March, CNR submitted a draft decommissioning programme for the Ninian platform**, one of the North Sea's oldest producing fields.
- **On 8 February, the First Minister launched a £5 million Decommissioning Challenge Fund (DCF)** to provide opportunities for the Scottish supply chain to benefit from oil and gas decommissioning. GMB have criticised DCF money as a "drop in the ocean" on GMS (9 Feb); and argue (20 Feb) that Scotland is a "decade behind" in preparing for decommissioning.
- **A Labour Conference Motion: called on UK & Scottish Governments to agree a co-investment plan** to support the industry by taking a public stake to protect vital offshore infrastructure, 25 Feb 17.

<u>Top Lines</u>

- The **North Sea still holds significant potential with up to 20 billion boe remaining,** but the industry highlights that further action is needed to encourage investment.
- We are under no illusions about the challenges facing the sector, but welcome the fact that **production is increasing and operating costs are falling** – reflecting the significant investment in recent years and the efforts by industry to reduce costs and increase efficiency.
- **The £5 million Decommissioning Challenge Fund recognises that decommissioning is an emerging, but growing, activity in the North Sea**, with £17.6 billion expected to be spent in the North Sea over the next decade.
- **The key economic and fiscal levers remain with the UK Government**. The Scottish Government remains committed to the oil and gas industry during these challenging times.
- The **Energy Jobs Taskforce (EJTF) is supporting Scotland's oil and gas sector** - bringing together key partners to maximise employment opportunities for those in the industry.

The key economic levers remain with the UK Government, and further support is urgently required

- Finally, the Chancellor has listened to calls the Scottish Government and the industry have been repeatedly making for some time to ensure that "the right assets are in the right hands", it is crucial this turns into actions swiftly rather than another talking shop.
- The UK Government first committed to reforming decommissioning tax relief in December 2014 in their *Driving Investment* plan.
- The OGUK Business Outlook highlights the urgent need for fresh capital investment to stimulate activity and maximise economic recovery. Steps must be taken now to incentivise investment and exploration, which would be of particular help to the supply chain, facing the greatest pressures.
- The Scottish Government has previously recommended proposals focused around increasing activity in late-life assets to ensure their full potential is realised, protecting critical pieces of infrastructure, and driving forward much needed new investment in the North Sea.
- It is clear that without greater investment and activity we risk losing vital capacity and skills that will support production and ensure we maximise economic recovery from the North Sea.
    - **Action is required to improve access to decommissioning tax relief**, ensuring that the right assets are in the right hands, and **deliver the UK commitment to provide loan guarantees,** which are of vital importance to both the supply chain and ensuring critical infrastructure remains operational.
    - With around £17.6 billion expected to be spent in the North Sea over the next decade on decommissioning, the **UK should join Scotland in funding projects to help secure work and cut costs in this emerging field.**

Norway set up an oil fund – the fund is now valued at around $900 billion and is being used to shelter the Norwegian fiscal budget from fluctuations in oil and gas revenues

- Norway has a sovereign oil fund, valued at around $900 billion (Nkr7.6 billion), which is more than double the country's total GDP.
- The Government Pension Fund Global shelters the fiscal budget from fluctuations in oil and gas revenues. A decline in the price of oil therefore has no immediate impact on the fiscal stance, but translates into reduced fiscal space over time.
- In 2016 – the first time since its establishment in 1996 – the Norwegian government started to withdraw money from its sovereign wealth fund to cover government expenses. Withdrawals amounted to $15 billion over 2017 to cover a budget hole of roughly 8% of GDP.

First Minister launched a £5 million Decommissioning Challenge Fund (DCF) to provide opportunities for the Scottish supply chain to benefit from oil and gas decommissioning

- The DCF will support infrastructure upgrades and innovation in salvage and transport methods at Scotland's ports and harbours. [Funding is available in Financial Year 2017/18]

- The DCF will also encourage engineering scoping work at key sites to build business cases that will attract further private investment.
- The DCF will deliver a key Programme for Government commitment to ensuring that decommissioning is executed in a safe, environmentally sound and cost effective manner and supports the ambitions outlined in our draft Energy Strategy and Scottish Enterprise's Decommissioning Action Plan.
- The Scottish Government will make further funds available in future years once business cases have been developed to support larger scale projects.

We launched a £12 million Transition Training Fund (TTF) to support individuals and help the sector retain talent on 1 February 2016.

- The fund, now in operation for a year, will **operate for three years**. Latest figures show **more than 1,600 people have had applications approved from the fund**.
- Training programmes procured by the TTF will also **create around 340 employment opportunities across Scotland**, with **the latest tranche supporting 425 opportunities**.
- The TTF augments the work of the Energy Jobs Taskforce - already providing support through **PACE** and other measures such as the **Adopt an Apprentice initiative**.
- It is important that the TTF continues to address tangible economic opportunities, rather than simply offering speculative training - on this basis, the funding has already surpassed its initial aim of supporting over 1,000 participants each year.

The Energy Jobs Taskforce (EJTF) remains focused on supporting those affected today but, at the same time, is looking to the future to lay foundations for a vibrant industry for decades to come

- **The taskforce has met 12 times,** with the most recent meeting taking place on 8 December.
- The PACE programme has focused significant efforts in the North East **– 4 PACE job events aimed at the oil and gas industry have been attended by 3,500 people to date.**
- The Elevator Fresh Start programme has supported **the creation of 64 new businesses in the north east of Scotland**, originating from original contact at PACE events.
- From March 2015 to April 2016**, Scottish Enterprise has engaged directly with over 800 oil and gas companies via 36 events**. These include workshops and programmes and 4 industry networking events

We have also provided a further £12.5 million to support innovation and business resilience

- This included £10 million of SE funding to **help firms reduce risks associated with carrying out research & development. To date** around 78 innovation projects with a total project value of around £16 million having benefitted from **around £7 million** of Scottish Government support so far.
- £2.5 million was set aside for **business resilience reviews,** providing targeted support from industry experts, **with over £2.5 million committed investment so far**.

- SE & HIE are providing practical assistance to the supply chain and have run **6 Resilience in Oil and Gas Events**, welcoming 217 delegates from 144 companies, to hear from experts on strategy, operations, finance and market resilience

Our draft Energy Strategy conveys a clear message to the oil and gas industry – the recovery of North Sea oil and gas as a highly regulated source of hydrocarbon fuels will continue to be a priority for this government for decades to come.

- The Scottish Government remains committed to maintaining domestic oil and gas exploration and production, and **Maximising Economic Recovery**. For the first time, our Energy Strategy clearly articulates this within the context of our climate change objectives.
- Over the past five decades**, North Sea production** has established an industry that has generated over £330 billion in tax revenue and currently supports around 124,500 jobs in Scotland.
- The sector provides high-value employment, the engineering and technical bedrock for our transition from fossil fuels, and stable supply of our energy demands for decades to come.
- Around **three quarters of total energy consumption in Scotland is supplied by oil and gas**.
- As a result of advances in technology, many developing here in Scotland, new and innovative ways of using hydrocarbons are emerging. This will be a continuing opportunity for decades to come with new energy sources and technologies such as Hydrogen and CCS having the potential to substantially reduce the cost of decarbonisation.

- The Autumn Budget Statement included details on the introduction of the UK wide Apprenticeship Levy in Apr 2017. It will be set at a rate of 0.5% of an employer's pay-bill and be paid on any pay-bill in excess of £3 million. HMT suggest that only 2% of UK employers will be eligible to pay.

- The SG published response set out how the Levy will support skills, training and employment in Scotland, including:
  - continue to expand the number of MA opportunities as part of our planned growth to 30,000 new starts each year by 2020;
  - increase in the number of Graduate Level and Foundation Apprenticeships during 2017-18;
  - support measures to tackle structural unemployment issues and challenge inequalities;
  - continue with the implementation of the Youth Employment Strategy;
  - respond to the immediate skills needs of employers, through:
    - the establishment of a new £10 million Flexible Workforce Development Fund for employers; and
    - ongoing and sector-specific skills support for priority sectors in the economy such as digital, care and early years.

Employers in Scotland are set to benefit from a new £10 million skills fund, announced as part of the Scottish Government's response to the UK Government Apprenticeship Levy.

- The fund will be introduced in the Autumn 2017 and we will bring forward further details in the New Year.

There is not £221m of additional money coming to Scotland through the Apprenticeship Levy.

- While the Apprenticeship Levy will be **a new tax on employers, its proceeds will largely be replacing existing apprenticeship funding** in England of which Scotland will receive a proportionate share.
- This is a new way of the UK Government raising funds direct from business, a **policy they announced in 2015 without consultation with the Scottish Government or employers**. We estimate that the **cost to the public sector in Scotland will be around £73 million p.a.**
- We have already set out plans to deliver on our ambitious commitment to supporting 30,000 Modern Apprenticeships starts by 2020. That plan has the support of industry who have also backed our **plans to expand Foundation and Graduate Level apprenticeships.**

Impact on the Oil and Gas Sector

- The Oil and Gas Sector are concerned that *"with less than 2% of companies across the UK falling into the scope of the levy, the size and complexity of companies in oil and gas means the industry is likely to be disproportionately affected by its introduction"*.
- The Levy is viewed as an additional tax on bottom line costs which could lead to companies looking at cutting costs in areas of their business.

- Industry argues that there remains a lack of clarity on how the Levy will operate in Scotland, particularly in terms of those employers operating across borders.
- At the EJTF meeting on 8 December, Deirdre and others sought clarity on the SG approach to the Apprenticeship Levy. **Scottish Government will update on Apprenticeship Levy at the next task force meeting on 22 March 2017.**

Key Lines

- During the consultation employers asked to see a more flexible approach and for Levy funds to be used to protect the development of the apprenticeship offering.
- The UK Government announced in November that the Scottish Government would receive £221m next year as a result of the levy
- This is not £221m of additional money coming to Scotland through the Apprenticeship Levy
- We estimate that the cost to the public sector in Scotland will be around £73 million per annum - when you take that into account the Scottish Government's spending powers are actually £30 million down as a result.
- All of the funds raised through the Apprenticeship Levy will be invested by Scottish Government in skills, training and workforce development to meet the needs to employers, the workforce, young people and Scotland's economy.
- That is why Minister for Employability and Training announced, as part of the budget, that we would introduce a Flexible Workforce Development Fund, to the tune of £10 million.
- The details on how the fund will operate as officials are being finalised, but this funding is committed.

Annex F – Business Rates

ISSUE: MINISTERIAL STATEMENT, 21 FEB

- 12.5% real-terms cap on bill increase for:
  - hotels & pubs; restaurants & cafes (benefits 8,500 properties);
  - offices in Aberdeen and Aberdeenshire (benefits 1,000 properties)
  - small-scale hydro (up to 1 MW) (benefits 100 properties)
- Expanding current relief up to 100% for qualifying community renewables projects, by lowering the eligibility threshold related to community profit-share from 1 MW to 0.5 MW
- New 50% relief for district heating schemes.
- Total estimated cost £44.6m, funded by revised approach to addressing the NDR pool deficit.

DRAFT BUDGET 2017-18 proposals

	Scotland		**England**	
	2016-17	**2017-18**	**2016-17**	**2017-18**
poundage (pence)	48.4	46.6	48.4	46.6
large business supplement (pence)	2.6	2.6	1.3	1.3
LBS threshold (rateable value)	£35k	£51k	£18k / £25.5k	£51k

			London	
small business 100% relief – upper threshold (rateable value)	£10k	£15k	£6k	£12k
small business <100% relief (rateable value)	50% to £12k 25% to £18k	25% up to £18k	tapers to 0% at £12k	…0% at £15k

THE REVALUATION

- All non-domestic premises (subject to exemptions e.g. agriculture) have their property value reassessed by the independent Assessors. The SG has no locus to intervene. SG does have control over the tax rate (poundage) and reliefs.
- Assessors published draft revaluations online in December, subject to change in March. **All ratepayers have until 30 September to appeal their revaluation.**
- SG will publish an analytical report on the impact of revaluation in due course.

TRANSITIONAL RELIEF (TR)

- Revenue-neutral premise: largest bill increases and decreases phased in after revaluation so acts as a cross business subsidy, although past schemes have always required Gov subsidy to balance.
- SG consulted in 2016: published analysis showed 32 of 52 respondents supported TR (i.e. a small sample, given over 200,000 properties in valuation roll).
- English legislation requires TR for every revaluation. Scotland last applied it for 2005 revaluation.

Empty property relief unchanged

	Empty non-industrial property	**Empty industrial property**
Scotland from 2013-14	100% for 3 months, then 10%	100% indefinitely
Scotland from 2016-17	50% for 3 months, then 10%	100% for 6 months, then 10%
England	100% for 3 months, then 0%	100% for 6 months, then 0%

NDR INCOME / POOL

07-08	**08-09**	**09-10**	**10-11**	**11-12**	**12-13**	**13-14**	**14-15**	**15-16**	**16-17**
1,928	1,924	2,010	2,138	2,251	2,347	2,367	2,511	tbc	tbc
	-0.2%	*4.3%*	*10.9%*	*16.8%*	*21.7%*	*22.8%*	*30.2%*	tbc	tbc

NB. 2015-16 data will publish Feb 2017

- Conservatives cite SPICe 42% rise in collected NDR from 2007-08 to 2014-15. However, SG published collected NDR (table above): up 30% from 2007-08 to 2014-15; in line with England.
- Draft Budget shows (distributable) NDR dropping from £2,768.5m for 2016-17 to £2,605.8m for 2017-18. It does not reveal the fact that collected NDR is rising.

SG Non-Domestic Rating Account ("The NDR Pool") *[data to 2015-16 published; 2016-17 data will publish in Dec 2017]*

(£m)	2013-14	2014-15	2015-16	est. 2016-17	est. 2017-18 (Draft Budget)	
Contributions	2,500.9	2,554.0	2,573.8	2,802.1	2,816.2	*NB. figures differ from above stats due to prior-year adjustments etc*
Distributable Amount	2,513.0	2,780.6	2,788.5	2,768.5	2,665.8	
Yearly Balance	-12.1	-226.6	-214.7	33.6	150.4	
Cumulative Balance	152.7	-73.9	-288.6	-255.0	-104.6	

ISSUE: DAILY MAIL, 2 Feb 2017, '*Rates Hike to hit NHS'*

Selected provisional revaluations (public sector)

Property	2016 rateable value	Provisional 2017 rateable value
Edinburgh Royal Infirmary	£5.59m	£5.51m
Forth Valley Hospital	£5,04m	£7.55m
Glasgow, Queen Elizabeth Hospital	£15.0m	£22.59m
Aberdeen Royal	£6.3m	£6.93m
Glasgow Royal	£4.6m	£4.84m
Dundee, Ninewells	£4.58m	£4.53m
Aberdeenshire Council HQ	£2.4m	£2.54m
Aberdeen City Council HQ	£2.59m	£2.93m
Edinburgh City Council HQ	£3.12m	£2.60m
Edinburgh City Chamber	£1.05m	£0.93m
Glasgow City Chamber	£1.08m	£1.34m

Overall revaluation uplift for hospitals is around 10-11%, with individual valuations going up and down.

ISSUE: P&J, 27 Feb, '*Why parents could be forced to turn back on work to look after kids… Because of business rates*'

- Nurseries average rateable values are increasing by around 30%.
- P&J reports "Linda Pirrie, manager of three Croft Nurseries in Stonehaven, said that parents would have to pay more as she will have to stump up an extra £38,000".
  - In fact, the 3 nurseries' total rateable value is increasing from £74k to £111.5k, with rates bill increasing from £35.8k to £52.0k (up £16.1k or 45%).
- Reports "Graham Mogford owns the Bridges Nurseries in Westhill and Bridge of Don and is facing an increase in the rateable value on each of his properties from £65,000 to £112,000".
  - In fact, the 2 nurseries' total rateable value is increasing from £111.5k to £195.5k, with rates bill increasing from £56.9k to £96.2k (up £39.3k or 69%).

- Reports a "£44 million package to ease the burden on outfits feeling the squeeze from the oil and gas slump".
  - In fact, the £44.6m package comprised £4.8m for Aberdeen/shire offices; £2.7m for renewables; and £37.1m for hotels (& other accommodation), pubs, restaurants, cafes.

Reports Cllr Willie Young "called on Holyrood to give the same priority to the north-east as it had to the struggling steel industry".

<u>Top Lines</u>

- No restaurant, pub, hotel or café will see their bills increase by more than 12.5%;
- Additional support for the North East economy in light of the Oil and Gas downturn, capping bill increases at 12.5% for offices in Aberdeen and Aberdeenshire
- Expanded renewables relief as committed to in the Draft Budget
- As Mr Mackay set out on 21 Feb, updating the profiles of the Scottish Government's contribution required to bring the NDR pool into balance has provided the flexibility to meet the additional cost of these measures.
- The measures for hotels/pubs and offices will apply for 2017-18 and we will consider what further future support is required in light of the Barclay review when it reports this summer.
- We have freed councils to use their powers to introduce local rates relief schemes to address any other local issues.

<u>The Draft Budget sets out a highly competitive business rates regime.</u>

- **Over 70% of Scottish properties will pay the same or less in 2017-18 than they do currently.**
- We are cutting the poundage, extending the Small Business Bonus Scheme, and focusing the Large Business Supplement only on the very biggest businesses.
- More than half of rateable properties will pay nothing for 2017-18 [due to the Small Business Bonus and other reliefs].
- An external review (led by Ken Barclay) is exploring how business rates can better reflect economic conditions and support growth. We will respond quickly when it concludes in the summer.
- In 2017 all commercial premises will have their property value reassessed by the independent Assessor. The Scottish Government has no locus to intervene in this process.
- The Scottish Government will publish an analytical report on the impact of revaluation in due course.
- All ratepayers have a right of appeal against the independent Assessors determination of rateable value. This is free to do in Scotland, unlike in England where charges are proposed from 2017-18.

<u>Our Draft Budget demonstrates our commitment to competitive business rates</u>

- The rates poundage will drop 3.7% from 48.4p for 2016-17 to 46.6p for 2017-18.
- We are maintaining the best support for small ratepayers in the UK.
- The Small Business Bonus has saved business over £1.2 billion cumulatively since 2008.

- The Small Business Bonus eligibility threshold for 100% rates relief will increase to a rateable value of £15,000, lifting 100,000 properties out of rates altogether.
- The Small Business Bonus will provide maximum support of £6,990 per business [100% relief for £15k rateable value at 46.6p poundage].Properties with rateable value up to £18,000 can still get 25% relief, as is the case currently [so long as ratepayer's cumulative rateable value is no more than £35k].
- **We are excluding 8,000 businesses from the large business supplement**, and limiting it to fewer than 10% of properties [around 20,000].
- **We are raising the threshold for the large business supplement from a rateable value of £35,000 to £51,000** [matching England].

QUOTE
Colin Borland, Federation of Small Businesses: *The sensible measures announced today should provide some comfort for Scotland's vital tourism and hospitality industries. Targeted help for the economy of the north east will also be welcomed by local firms." 21 Feb 2017*

QUOTE
James Bream, Aberdeen Chamber of Commerce: *"I think we can say the Scottish Government have listened to the chamber and its members, and actually we would expect to see real benefits over the next year to the businesses in the region." (Reporting Scotland 21 Feb)*

QUOTE
Marc Crothall Scottish Tourism Alliance*: "For us, a sector that employs two hundred and ten thousand people and has nigh on twenty thousand businesses, this is a really, really big result, there's never been such an issue that has caused such a concern for so many, and it's across the whole country." (STV News 21 Feb)*

QUOTE
Andy Willox, Federation of Small Businesses: *"By giving full rates relief to 100,000 Scottish firms, the government has lifted the prospects of smaller businesses facing a tough 2017." 15 Dec 2016*

We will continue to fund a package of rates relief worth over £600 million

- We are not proposing transitional relief, as it would burden many smaller ratepayers (and benefit a few large utility companies).
- We will match the Chancellor's expanded rural relief [from 50% to 100%] and, subject to confirmation of detail, new relief for new broadband fibre infrastructure.
- We will expand renewables relief and confirm detail in due course.
- **Empty property relief will continue unchanged for 2017**
- Empty relief balances the incentive for landlords to occupy property, with a reasonable period of time to help manage vacancies.
- 'New Start' relief supports new-build development; and 'Fresh Start' relief supports re-use of certain long-term empty property.
- **Councils can also now apply further rates reductions** under the Community Empowerment Act. [Perth & Kinross is using the power to support town centres]

We continue to discuss Draft Budget proposals with stakeholders ahead of final decisions

- Ministers continue to engage a range of stakeholders including Aberdeen & Grampian Chambers of Commerce, Aberdeen City Council and Aberdeenshire Council.
- Rating valuation is undertaken by independent Assessors, funded by local councils, not the Scottish Government.
- Individual business rate payers can, of course, appeal their valuation if they feel it is incorrect.
- Each council retains all the business rates revenue it collects, and it is for councils to apply rates reductions, on top of existing statutory reliefs, as they see fit.
- Taking next year's local government finance settlement plus the other sources of income available to councils through reforms to council tax and funding for Social Care, the overall increase in spending power to support local authority services amounts to £241 million or 2.3 per cent.
- Aberdeen Council's share will see increased spending power of £7m in 2017-18, not a decrease.
- The Scottish Government is delivering a huge amount for Aberdeen and the North-east. We are delivering our share of the Aberdeen City Deal plus an additional £254 million investment announced alongside it. We are also investing £745 million in the Aberdeen Western Peripheral Route.

Almost two in every five nurseries [approx. 37%] received rates relief via Small Business Bonus in 2015

Approximately 60% of hotels (3,200 premises) received rates relief via Small Business Bonus in 2015

- 49% of hotels paid no rates at all.
- In total Small Business Bonus Scheme provided nearly £6 million of relief to the hotel sector.

We have made changes since Draft Budget to our estimated profile of non-domestic rates income [at Budget Bill Stage 1]

- This reflects updated projections of the Scottish Government contribution required to bring the non-domestic rates pool into balance.
- This revision takes place alongside evolving revaluation information from the Assessors - which is on-going ahead of new valuation rolls being produced in mid-March.
- The revision will have no impact on our competitive package of business rates measures already announced, which will be delivered in full.
- The distributable amount for 2017-18 will be confirmed in the Local Government Finance Order, which will be debated by Parliament before the end of March.

HOW MUCH IS THIS COSTING AND WHERE IS THE MONEY COMING FROM?

- As we laid out at Stage 1 of the Budget, we are continuing to update the profile of the Scottish Government contribution required to bring the non-domestic rates pool into balance. This process has allowed us to meet the estimated cost of the additional support package announced today of £44.6 million

Script

The NDR system works by accounting for all business rate receipts in a single account – the “NDR pool”.

It is normal for it to run at of a surplus or a deficit (due to the nature of estimating) but, across years, action is taken to bring it into balance. We are budgeting to bring the pool back into balance over the next two years. Any shortfall in income must be matched by additional funding from the Scottish Budget.

The scale of that investment depends, in part, on the estimates of how much NDR will raise. In a revaluation year, this estimate continues to be refined as the revaluation approaches completion in March.

This process of refinement together with reprofiling over the next 2 years to bring the pool back into balance has allowed us to reduce how much funding the SG needs to contribute next year. Essentially, we are able to inject less funding in 2017/18 and still bring the pool into balance over 2 years.
This does not change how much is raised from NDR, nor does it change any company’s business rates bill or change the amount of funding councils receive.

What it does allow is for sufficient funding to be freed to meet the estimated costs of the new reliefs package announced by Derek Mackay on Tuesday.