

FINANCE COMMITTEE

Tuesday 25 October 2005

Session 2

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FINANCE COMMITTEE

22nd Meeting 2005, Session 2

CONVENER

*Des McNulty (Clydebank and Milngavie) (Lab)

DEPUTY CONVENER

*Mr John Swinney (North Tayside) (SNP)

COMMITTEE MEMBERS

*Ms Wendy Alexander (Paisley North) (Lab)

*Mr Andrew Arbuckle (Mid Scotland and Fife) (LD)

*Mark Ballard (Lothians) (Green)

*Derek Brownlee (South of Scotland) (Con)

*Jim Mather (Highlands and Islands) (SNP)

*Mr Frank McAveety (Glasgow Shettleston) (Lab)

*Dr Elaine Murray (Dumfries) (Lab)

COMMITTEE SUBSTITUTES

Alex Neil (Central Scotland) (SNP)

Iain Smith (North East Fife) (LD)

Janis Hughes (Glasgow Rutherglen) (Lab)

*attended

THE FOLLOWING GAVE EVIDENCE:

Thomas Glen (Communities Scotland)

Ian Mitchell (Communities Scotland)

Gordon Morgan (Scottish Socialist Party)

David Nicoll (Wise Group)

Jane Richardson (Scottish Executive Justice Department)

Tommy Sheridan (Glasgow) (SSP)

CLERK TO THE COMMITTEE

Susan Duffy

ASSISTANT CLERK

Kristin Mitchell

LOCATION

Committee Room 6

Scottish Parliament

Finance Committee

Tuesday 25 October 2005

[THE CONVENER *opened the meeting at 10:03*]

Cross-cutting Inquiry into Deprivation

The Convener (Des McNulty): Good morning. I welcome people to the 22nd meeting in 2005 of the Finance Committee. I remind everyone to switch off all pagers and mobile phones. All members are present, which is a good start.

Item 1 on the agenda is our cross-cutting inquiry into deprivation spending. As members will be aware, our call for evidence closed on 30 September. All the submissions have been circulated to us in hard copy and posted on the Scottish Parliament website. There has been a gratifying response to the call for evidence. A substantial amount of evidence has been submitted and a great deal of it is of high quality.

Today we will take evidence first from Communities Scotland and then from the Wise Group. I welcome from Communities Scotland Ian Mitchell, who is the director of community regeneration, and Thomas Glen, who is head of the community regeneration unit. I offer Ian Mitchell the opportunity to make a brief opening statement. We will then proceed to questions.

Ian Mitchell (Communities Scotland): My introductory remarks will be brief. Thank you for inviting us to attend. We very much welcome the cross-cutting inquiry into deprivation, which we have followed with close interest. The Executive agency Communities Scotland was formed to bring together physical housing development and investment with broader regeneration of communities. Our current corporate plan is about places and people and the interaction between the two. I know that the committee has been considering that.

The agency does not provide any universal services. All our investment is targeted at those who need services most. Our housing investment is targeted at the provision of affordable housing as a support to broader community regeneration and at areas where the market is pressured and affordable purchase or rent is extremely difficult. Our community regeneration investment is targeted around Scottish ministers' closing the opportunity gap objectives. A proportion of that funding goes on specific policy intentions, such as the encouragement of the wider regeneration role

of housing associations and the provision of support through our futurebuilders programme to the development of the social economy in Scotland. However, the main investment programme that we manage is the community regeneration fund, which is intended to address the most severe concentrations of deprivation in communities throughout Scotland. The programme is being implemented through 32 community planning partnerships under a strategic process known as regeneration outcome agreements.

The community regeneration fund is spatially focused, but I should make the point that we never forget that behind the terminology of ROAs, which is pretty dry stuff, and issues such as the eligibility of data zones there are real people with real needs in those communities and there is untapped potential. The "Social Focus on Deprived Areas 2005" report, which the Scottish Executive issued a few weeks back, demonstrates that in all aspects of life there are considerable differences between the most deprived areas and the rest of Scotland in health, employment, community safety and so on. We think that where someone lives has a compounding effect on how they experience poverty and we believe that it is necessary to tackle that spatial problem. If we do not, that will make our broader anti-poverty targets all the more difficult to meet.

The committee is, of course, inquiring into how tackling deprivation is best achieved, so I will finish at that point and let members get on with their questioning.

The Convener: Thank you. For the sake of clarification, can you tell us about the structure of Communities Scotland? You are the director of community regeneration. You said that you are in charge of one budget, but Communities Scotland is obviously also in charge of a mainstream housing budget and, as you mentioned, there are other budgets such as futurebuilders. How does Communities Scotland work as an organisation to deal with regeneration and housing issues?

Ian Mitchell: Under the chief executive, Angiolina Foster, there is a director of community regeneration—me. Our main function, which we took on from the Scottish Executive about four years ago, is the area regeneration function—the management of what was at the time social inclusion partnership programmes. That function within community regeneration has been supplemented by similar programmes that work towards community regeneration. I have mentioned futurebuilders and our wider role programme, which operates through housing associations. We also have a fund for post offices in urban deprived areas. The intention was to bring those programmes together in a more

coherent format within the community regeneration division. We also have a Scottish centre for regeneration, which is about learning, spreading best practice and looking at skills within the regeneration sector. That is all contained within the community regeneration function.

The challenge is to link that with housing investment. The director of housing investment looks after investment in community regeneration, affordable housing and the community ownership programme. Obviously, in working closely together, we are trying to link housing investment in places such as Glasgow, which has not been considerable, with the community regeneration spin-offs that such investment can bring.

The third strand is a director covering the area network. The area offices, of which there are seven, are probably where regeneration and housing come most forcefully together. The offices are represented in community planning partnerships in Scotland, which is one of the few examples of a national function operating with the 32 local community planning partnerships. We have found that to be an advantage in making links between the local and national levels. I will stop there, unless you want me to go further into the bowels of the structure.

The Convener: It is interesting to learn something about the structure, as I know that it has been evolving since Communities Scotland was set up. What is the rationale behind the introduction of the regeneration outcome agreements? Where do they come from and how do they do work?

Ian Mitchell: In the most basic terms, we are trying to ensure that, through the regeneration outcome agreements, rather than just looking at the inputs, spend and number of projects that have been funded over the years through community regeneration, we start by looking collectively at the outcomes that we want. The ROA works, in effect, from back to front. It gets all the key players together to decide how to achieve the desired outcomes in, for example, health and employability. It then works back to see how, collectively, the key players intend to meet those outcomes. Those key players decide which projects will best achieve the outcomes that they want. That, in essence, is what the ROAs are about.

One of the main reasons for moving away from the social inclusion partnerships was that they tended to be overly localised and overly concentrated on lines on maps and boundaries. There is a realisation that local projects are important, but that the fortunes of deprived communities must be seen in a broader context, whether that be a town, a wider rural community or a city. The beauty of ROAs is that, being

channelled through community planning partnerships, they can view the bigger picture.

Our challenge is to link to the opportunities that arise. Yes, we have had difficulty over the past 10 years or so in attracting private sector investment into SIP communities. However, there is undoubtedly great potential for the private sector to invest in and around those communities. The aim of ROAs is to link the need—it is a needs-based approach—with employment opportunities that may not fall neatly within a community defined by lines on a map and with private sector investment. That is the broad thinking behind the agreements.

We want to keep our focus on need. Ministers are clear that the community regeneration fund and the focus of ROAs should be needs based. Therefore, the areas in which the ROAs operate are selected through the index of multiple deprivation. ROAs are more strategic and allow us to see the fortunes of deprived areas in a wider context.

The Convener: You have seen the outcome agreements evolving. Have you noticed particular patterns in their contents? What sort of difficulties have partners experienced in arriving at the regeneration outcome agreements?

10:15

Ian Mitchell: It would be absolutely foolish of me to say that the challenge has not been massive. We now have 32 regeneration outcome agreements across Scotland, but that has been a very challenging process for us and for the partnerships concerned. We were working with more than 1,400 individual projects. People are attached to those projects, as some of them are delivering good local outputs, so switching overnight to a wholly outcome-based approach has been a challenge.

Understanding what is meant by an outcome-based approach has also been a challenge. Some authorities, particularly those that were involved in the better neighbourhood services fund—one of the three funds that were merged to create the community regeneration fund—had experience of working with an outcome-based approach, but others did not. Communities Scotland has spent a fair bit of time working on a one-to-one basis with partners.

Another challenge is that we have sought to bring national priorities to bear on the types of funding that we, and ministers, think can best help people out of poverty in the medium to long term at national level. Ministers have been clear that the agenda is not a top-down one. Five national priorities have been set: getting people back into work; health; education; young people; and

community engagement. It is not a matter of imposing them; it is, through the community planning partnership, a matter of a shared agenda. It is about making sure that the priorities are reflected through action based on local needs.

Take the example of Moray Council. Based on the index of multiple deprivation, it will not command as massive a share of the resources as Glasgow, for instance. It might be inappropriate for Moray Council, given the resources available to it, to cover all the national priorities. Therefore, the council has decided to focus on the problems that young people face during their transition into adulthood, such as housing. We have been flexible in allowing a more focused approach when that is more suitable to local circumstances.

The process has been challenging. I am confident that, through ROAs, we have for the first time a collective commitment. That means that not just local authorities but a number of public bodies are working together to achieve the outcomes and some leverage has been achieved through the agreements. I should stress that the ROAs could bring together other sources of regeneration funding. We have started by merging the SIP funding, the BNSF and the tackling drugs misuse fund. However, there is no reason why the framework of an ROA cannot work for a broader range of funding devices in future.

The Convener: Wendy, do you wish to come in on this?

Ms Wendy Alexander (Paisley North) (Lab): Yes, although my question takes us on to the next theme, so perhaps I should let you finish.

The Convener: One of the complaints has been that the regeneration outcome agreements are unduly bureaucratic for the amounts of money involved. Perhaps that is not the case in Glasgow, but it may be so in areas that get less money through the community regeneration fund. Can the bureaucracy be simplified and stripped down? To some extent, the outcome agreements are paralleled by other exercises, particularly those that councils must get into in order to justify their funding. The danger is that we end up with people having to make multiple justifications for what is, in effect, the same kind of activity. What is your perspective?

Ian Mitchell: First, I completely understand the point; it was made in several of the submissions. I suppose that the answer to the question is that sometimes one person's bureaucracy is another person's way of challenging what is being achieved with the funds.

We think that we have been proportional with a number of the community planning partnerships where the community regeneration fund take has been smaller. The initial intention—although

perhaps that intention has still to be fulfilled—was that the ROAs would act not just as a strategy for the spending of the community regeneration fund, but as a strategy and framework for community regeneration more broadly. The intention was to tackle spatial need in particular and, over time, other needs. Therefore, we do not think that work in relation to the community regeneration fund has been wasted.

We would also argue that it is important for community planning partnerships to analyse needs adequately and to have projects that flow from that analysis rather than the other way round. We understand the local political pressures that are related to SIP projects and the like, but some partnerships have not adequately analysed needs and we have been right to go back to them.

Targeting is another issue that has been raised. The guidance was clear. Around 80 per cent of the funds will continue to be targeted spatially while much more flexibility is to be allowed, with 20 per cent of the funds being used for thematic approaches to young people, worklessness or whatever. We have been flexible on that 80:20 split if, for example, natural communities need to be formed. I give an example from Kirkcubrecht in Dumfries and Galloway, where two data zones perhaps did not fall into the category of most deprived but it was clear that, for accessibility and income reasons, they were deprived and that they formed a natural community. We were flexible in that case.

I understand the point that has been made about bureaucracy, although I do not think that there has been excessive bureaucracy. The first wave is over and people have said to us privately—if not publicly—that going through the process with their partners of analysing need and the nature of that need and asking hard questions about the best investments that will get people out of poverty has been productive. That has been grasped extremely well in some areas. Round 1 is over and I am not deaf to the comments that have been made, but we think that, where we have pushed community planning partnerships, we have been reasonable in doing so.

The Convener: That is helpful.

Mr John Swinney (North Tayside) (SNP): I want to pursue the point that the convener made about bureaucracy. The criticism that has been made is more about duplication of effort than about excessive bureaucracy in a straightforward assessment of how public expenditure is controlled. Obviously, the committee takes an active interest in how public money is spent, but there is widespread concern that Communities Scotland may be duplicating the efforts of other agencies and organisations, particularly local authorities. Will you clarify for the committee

exactly what Communities Scotland brings to the party that differs from what local authorities bring to it? From where I am sitting, what Communities Scotland brings and what local authorities bring look terribly similar.

Ian Mitchell: First, we provide on behalf of Scottish ministers a national overview and function to ensure quality and to ensure that outcomes are set and achieved. I am not sure that anyone else does that—it is not a crowded field at the national level.

As I mentioned, because Communities Scotland is involved locally with community planning partnerships, we often hear face on—if I can put it that way—many of their frustrations, particularly with respect to the plethora of funding initiatives that can sometimes be seen to aspire towards the same end. My colleagues in Communities Scotland have been instrumental in bringing those concerns back up the line and in feeding them back to departments and ministers.

I will give a practical example. We are currently considering using the regeneration outcome agreement framework rather than having a new and separate mechanism to monitor financial inclusion. Indeed, many community regeneration fund projects also deal with financial inclusion issues. That is one example of how we are informing policy and addressing joined-upness in the Executive.

Mr Swinney: If there are already well-established measures that command confidence in community planning partnerships, it seems to be straightforward and eminent common sense not to create a new set of measures and mechanisms to monitor the delivery of a programme. If all those efforts are being made to tell Scottish Executive departments about what is being done and about the level of confidence in the measures, that reinforces the point about duplication. Perhaps if departments listened more closely to what community planning partnerships—for which the Parliament and the Executive legislated—said, the system would be a great deal more efficient.

Ian Mitchell: I was giving an illustration of where we add value, but I return to my first point. We are investing considerable sums of money. The community regeneration fund alone is £106 million for the year. It is not the case that, in Thomas Glen's community regeneration unit, tens and tens of people are running about checking on community planning partnerships. Work has been fairly excessive and, as I said, challenging over the past six months or so while the first ROAs have been developed, but there is a job of work to do to ensure that funds are being spent effectively, that we are feeding best practice into community planning partnerships on what does and does not

work and that we are checking and following through how, for example, mainstream expenditure works alongside the annual figure of £106 million to achieve outcomes. The task is important and needs to be done by us at a national level. Communities Scotland is doing that task to the best of its ability, although I suppose that I would say that. That is the main reason for our role in community regeneration.

The Convener: It has been suggested in the evidence that we have received that a longer-term framework for investment and a quicker or more responsive monitoring process are needed so that we can see that the trajectory of changes is upwards as a result of the funding. How are the mechanisms that you have put in place driving in that direction? In particular, how far is what Communities Scotland is doing in progressing regeneration outcome agreements influencing your partners' spending and policy decisions in the direction that you want to drive them?

10:30

Ian Mitchell: There are several issues. I will try to be brief on long-term funding. I cannot deny what has been said in an overwhelming number of responses that the committee has received from all sources about the need to get away from short-termism. We have done so to a degree, as the CRF involves a three-year process, but I appreciate that that time might not be sufficient—it is not sufficient to turn around an ailing community. However, we are constrained by spending review periods and political terms. I recognise what has been said and we will take the issue back to ministers and do as much as we can to address it. I will ask my colleague Thomas Glen to say something about the proportionality of monitoring arrangements.

Influencing spend elsewhere is one of the main benefits of a regeneration outcome agreement process that puts the key bodies—health and enterprise bodies and local government—at the heart of decision making. However, the proof of the pudding is in how those bodies weigh in to skew their spend to support the community regeneration fund. There are impressive examples from the first round of ROAs of European funding, lottery funding and funding from individual council departments being used much more collectively. The leverage figures are impressive. In Edinburgh, for the £20 million of community regeneration fund investment there is leverage of about £75 million of additional investment.

That takes us only so far, however. We seek a sea change in how the mainstream agencies rally round to tackle deprivation. As the committee is finding in its inquiry, some agencies feel that that can best be done by taking a people-based

approach, through people-based programmes aimed at meeting particular needs in health and so on. It may be right and proper that they do that. We happen to think that the compounding nature of concentrated deprivation requires other spending bodies to recognise that, where poverty can feed off poverty, there is a need to weigh in behind CRF resources.

Monitoring is in place in the community regeneration fund ROA process to let us see how that is progressing. However, I cannot tell the committee today that we have a completely thought-out and foolproof system for tackling the exact way in which all the mainstream budgets in Scotland are bending their spend. It would be wrong for me to say that.

Thomas Glen (Communities Scotland): It is important for us to recognise that our efforts in relation to mainstreaming are operating on two levels. Through the performance management framework that we have put in place, we are building in an expectation that community planning partnerships will look to evidence the contribution of mainstream resources to supporting targeted regeneration spending. We are asking local partners increasingly to focus their mainstream budgets on supporting the communities that we are interested in addressing. At the same time, we have structured the community regeneration unit so that, across the team, we have developed thematic leads to allow us to engage with key Executive departments.

Ian Mitchell has already mentioned the work that we are doing with colleagues in the Development Department on financial inclusion. We are also taking forward with colleagues in the Enterprise, Transport and Lifelong Learning Department work on employability and linking employability-related initiatives to regeneration outcome agreement work. Similarly, we are working with colleagues in the Environment and Rural Affairs Department to ensure that there are linkages between regeneration and practice in rural affairs. With colleagues in the Education Department, we are re-examining how education initiatives can link in with ROA work. There is an attempt to work directly with the partnerships to address mainstreaming at local level and to establish linkages across Executive departments.

The Convener: You have not said anything about the responsiveness of the monitoring process in which you are engaged or about the trajectory. How quickly can you know whether you are moving in the right direction and whether a particular approach is making progress in an area?

Thomas Glen: One of the biggest criticisms that we have received from partnerships is that, if we ask people to adopt an outcome agreement

approach, the achievement of many outcomes will be longer term. We have put in place a monitoring framework that requires community planning partnerships to report annually and involves mid-year stocktakes. Partnerships have asked us why we are asking them to report annually if the point is to achieve outcomes. We think that there are milestones that we can reasonably expect people to report on and which can demonstrate progress towards outcomes. Effectively, we are trying to turn a supertanker. If we are asking people to achieve outcomes and do not have them report until the end of the three-year period, the chances are that we will miss the boat. We support vigorous monitoring that allows people to consider the management of outcomes through a system of mid-year and annual reporting.

The Convener: The issues that you raise take us back to the question of bureaucracy, which was mentioned earlier. The more structured you make the monitoring process, the more bureaucratic the system will be. People can be diverted away from doing things to reporting on them. At the same time, there needs to be a mechanism for identifying whether we are moving in the right direction. There is a tension that needs to be worked on.

Ian Mitchell: Absolutely. The tension between delivery and process was highlighted by a recent report for local strategic partnerships in England. There is a tension between being able to check milestones and progress and allowing people time to develop outcomes. We think that a mid-year review and an annual report are not excessive, but we are prepared to listen further.

The Convener: Scottish Enterprise recently commented that it regards some inclusion activity as non-core to its activities. That could be seen as leaving a space for Communities Scotland or other partners to fill. Do you have views on what the proper role of local enterprise companies and Scottish Enterprise in regeneration outcome agreements should be?

Ian Mitchell: I played a bit-part role in your inquiry into economic development. I appeared before the committee about a year ago, when that issue was very topical. Regeneration outcome agreements are about linking need to future employment opportunities. It is imperative that the enterprise network should play a role in that process. There are various powerful and positive examples of that happening, such as in Glasgow. In the debate on inclusion, I get wound up by the notion that we are about tackling poverty purely by keeping the wolf from the door and local services. The debate on poverty and inclusion has moved on. It is about local services but, crucially, the fortunes of the communities that we are discussing are linked very much to access to learning,

training and jobs. That is where the crossover between agencies such as Communities Scotland and Scottish Enterprise is vital. It winds me up slightly when we are pigeon-holed as just looking after the poor.

Mark Ballard (Lothians) (Green): You mentioned the futurebuilders programme. How effective is funding to develop the social economy in supporting the regeneration of deprived areas?

Ian Mitchell: It is pretty vital. I am very pleased that the group that is seeking to promote the social economy is part of the division that manages the community regeneration fund. Some of the most inspiring examples of communities taking control and ownership through managing community assets or businesses have happened in the social economy sector. Although the futurebuilders programme is at an early stage, we like to think that we will continue to enhance support for that sort of sustainable approach. At the end of the day, this is public money, and we should be looking to wean ourselves off giving grants to communities for ever and a day through the likes of the community regeneration fund. That is a long way off, but an approach through the social economy and futurebuilders is exactly right.

Mark Ballard: Is Communities Scotland involved in partnership working on a national level to promote the social economy?

Ian Mitchell: During a debate on the social economy, ministers announced that there will be a social economy advisory board at national level, which will consider support for the social economy sector. The futurebuilders programme and giving out grants and loans are one thing, but issues such as the attitude and culture of the public authorities are equally vital. We need to wrestle with issues such as procurement. The social economy advisory board will play a key role in that process. We are also preparing a social enterprise strategy. As I am sure members know, social enterprise is a particular strand of the social economy. We are keen to provide more support to the social enterprise sector and are in the early stages of bringing together a national group and local groups to help us to develop that.

Mr Frank McAveety (Glasgow Shettleston) (Lab): Having been involved in a lot of neighbourhood regeneration strategies, I think that one of the problems is the ceaseless meetings that people have to have. All of us share the broad objective of trying to change things, but if we were to look back at what we have done, would we see that our work has shifted the dynamics of the local economic and social structure? Let us take the debate about the role of agencies, for example. Is it only Communities Scotland's role to deal with skills and training or are other agencies central to the development of that work?

Ian Mitchell: Are you asking about skills and training in capacity building or skills training generally?

Mr McAveety: I mean the individual's readiness and preparedness for access to the job market—the whole range, including basic literacy and numeracy and so on.

Ian Mitchell: No, I do not see that as being just Communities Scotland's role. We discussed the enterprise networks earlier. They run a number of programmes, of which training for work is perhaps the most obvious example, and the voluntary sector is one of the biggest providers of adult community learning.

The simple answer is the obvious one: we have to do this together in partnership. I am not saying that we have to do everything together, but we have to decide, more coldly, which people in which partnerships are best able to take the lead on an issue, whether that is working with communities on adult literacy or working with them on skills training with a view to getting people back into work. The Executive has an employability strategy in the offing, which may show that too many bodies are competing in and around the area of employability and—one step back—in the area of the skills training that is provided towards that end.

I agree whole-heartedly with the point about the number of meetings that take place. It will be no surprise to the committee to hear that we put community engagement at the heart of our work. That said, community engagement is done by various means. First and foremost, people want to be engaged in the services that are delivered to them, be they health, employability or whatever; they do not want to spend lots of time at structural and partnership meetings. Perhaps the emphasis needs to be more about engaging people in the way in which services are delivered and funded and not in the panoply of the regeneration process.

The Convener: We will move back on track with a question from Wendy Alexander.

Ms Alexander: My first question relates to what we have said so far about accountability and transparency, which are the central focus of the Finance Committee—more so, perhaps, than they are the focus of the Communities Committee. Obviously, it is a great thing to have brought together £100 million—or £300 million over three years. However, I want to probe a little about where the accountability lies. My question looks at the same issue that John Swinney raised, but from a different angle.

Obviously, if a community planning partnership draws up an outcome agreement, all partners are represented in that. However, local government is the lead partner. I understand that Communities

Scotland has a look at the draft regeneration outcome arrangement before it goes to ministers for approval. If all 32 ROAs are approved and Communities Scotland does not say to ministers that any of them should be rejected, surely the overwhelming impression that is created out there is that anything goes. People will think of Communities Scotland as the dog that never barks; they will say that, although they can see the carrot—the £300 million—the stick will never be used. Has there not been a profound shift away from the way in which regeneration moneys were allocated in the past, when that small proportion of money was clearly under central control? Surely what happens now is that what a community planning partnership decides goes. In future, people will say that Communities Scotland deemed that none of the 32 ROAs did not make the grade first time round.

10:45

Ian Mitchell: First, I will address the question of accountability. As members know, community planning is enshrined in legislation. However, it is enshrined as a process; the legislation has not altered fundamentally the vertical lines of accountability. We are very aware of the issues in respect of the community regeneration fund. Ultimate accountability for individual projects that gain a community regeneration fund award—let us say as part of a cocktail of funding from three agencies—is still up through the appropriate minister to the Parliament. For example, if the funding comes from the enterprise network, accountability lies with the Minister for Enterprise and Lifelong Learning and back to the Parliament.

I am not trying to make out that—

Ms Alexander: My question relates to your money, not everybody else's. In relation to the £300 million, did Communities Scotland recommend rejection of any of the 32 ROAs? Will the public ever know about those decisions? I am interested in accountability and transparency. As all 32 ROAs were approved, it appears that every single one of them made the grade—none of them was not up to scratch.

Ian Mitchell: The first three-year process started in April this year. We are in the midst of an Audit Scotland inquiry into initiatives. Audit Scotland is giving us a hard time for not sticking rigidly to the timetable for the consideration of the ROAs, which was that all of them should have been completed by April. The fact of the matter is that we realised fairly early on that some of them needed further work; we were not satisfied with certain elements, such as community engagement, the analysis of need or whatever. Over the past year, we have worked hard on the agreements, but we let the timetable slip.

As you rightly said, all the ROAs were approved by the end of September, but not all of them received unconditional approval. We took additional time to try to iron out the biggest issues we had with them. I agree that that led to accusations of bureaucracy or whatever. However, over the next period of time, we will put in place improvement plans to ensure that, if there is to be another round of ROAs, things will have improved long before the first three-year process ends.

I suppose that the point that I am making is that accountability for the community regeneration fund comes back to Parliament through the Minister for Communities. Another point is to do with the extent to which we continue to negotiate with partnerships and so keep funding away from the communities that need it. We lengthened the amount of time that we could take as much as we could so that we could work with partnerships and get the ROAs as right as possible. We are not making out that all the ROAs are perfect, but all the documents are public documents and people can have a look at them; indeed, people can also see our assessments of the ROAs and any improvement plans that are attached to approvals. I see the point that you are making, but we are in a slightly difficult situation in terms of rejecting an ROA outright.

Ms Alexander: That sends out a very clear signal, however.

I have a question for Thomas Glen on the same issue. We now have outcome agreements, some of which are inevitably of variable quality. People have said that they will do things in those ROAs. If, at any point over the next three years, you think that they are not doing what they said they would do—or not doing it well enough—do you have any sanction beyond that of simple exhortation? What is the formal position?

Thomas Glen: The formal position that I would take is to refer the matter to ministers, who would have to decide whether to take action against a CPP.

Ms Alexander: But there is no process by which we can take sanctions against a partnership that is not doing what it said it would do, or not doing it well enough. There is no formal process beyond Communities Scotland writing to ministers on a one-off basis. Clearly, 32 partnerships are out there spending £300 million.

Thomas Glen: A number of elements are involved. First, I return to what Ian Mitchell said. We have reached the point at which all 32 ROAs have been approved, but we accept that, in some cases, elements of detail remain to be finalised or developed. We are not suggesting for a second that all 32 ROAs are the finished article. Any ministerial letter would outline clearly what the

partnership had to do to improve things and bring the situation up to scratch.

I move on to the differentiation between the achievement of outcomes and the management of the fund. We have terms and conditions that set out clearly for the community planning partnerships the way in which the fund is to be managed through the accountable body which, in all cases, is the local authority. Those terms and conditions state clearly what will happen if the fund is not being used in the way in which it is meant to be used. Therefore, there is a clear process for how funding is used.

As for the achievement of outcomes, I refer to what I said about the performance management framework. We have a system of mid-year and annual reporting that allows us to flag up early the challenges that we see in the achievement of outcomes and initially to work with community planning partnerships to address those challenges. If it became obvious that a community planning partnership was unlikely to achieve an outcome, we would have to negotiate with it about what that meant for its commitment to the funding that it had put in place and the projects that it had funded. At some point, we might have to ask ministers whether they wanted to examine that outcome agreement.

Ms Alexander: I will leave that with you, but you might want to write to us about the matter. If 32 outcome agreements and £300 million over three years are at stake, it is inconceivable that your monitoring agreement will not identify a portion of that money that could be spent better or that is not being spent on what you were told it would be spent. Clarification of how that process is invoked would help. Otherwise, the impression is left that you are a kindly observer and that no stick exists. You suggest that the matter would go to ministers and that a monitoring framework will be used. We would like to know how that will be invoked because, given that £300 million is at stake, we would be sceptical if we felt that it would never be invoked at any point in three years. I accept that we are at the very early stages, but a little guidance would give us some clarity about where accountability for the money lies, whether centrally or locally. We want to bottom that out, but by all means write to us.

I return to the theme of how we bend the spend of other agencies. Billions of pounds are nominally meant to be spent in deprived communities. That is of an order of magnitude that is probably 100 times in excess of what is at your hand to spend. Bending the spend of other organisations involves difficulties. You say that you hope to extend the outcome agreement approach to related policies, which include, by implication, health, economic development and many other matters. How will

you do that? Given the difficulties that you have had in drawing up 32 outcome agreements with 32 planning partnerships, how will you produce agreements with health boards, which operate in the 32 areas, with Scottish Enterprise and with local government? Bending the spend is an issue. Will you expand on how the outcome agreement approach can be used to bend the spend by other major departments and agencies? That would help. Is the outcome agreement the way to do that or is there another set of mechanisms with which you try to influence what I imagine is in excess of a further 100 organisations throughout Scotland, if we include every local authority, health board and local enterprise company?

Ian Mitchell: As I said, the regeneration outcome agreement approach has great potential, we have a strategic framework in place. We already have the key bodies around the table—they should be in place anyway under community planning statute, and the vast majority of other bodies participate voluntarily. Enterprise companies and health boards are involved. We have the potential of the ROA to build on for more than just the community regeneration fund, if that is the road that we decide to go down.

A slightly different point is how we ensure that we bend the spend of key agencies. I made a point about the framework of having those leaders around the table together, which I do not underplay. In the past 18 months, considerable progress—not all related to the ROA—has been made in Glasgow to achieve a strategic fit between key leaders in the city. The fact that those people are all round the table and all manage similar budgets and initiatives is a great plus point.

I mentioned the leverage potential. There is evidence that ROAs are beginning to bring together disparate elements of funding for more coherent consideration. The massive challenge is not only to bend mainstream budgets but to measure that and to be clear. I cannot pretend to the committee that we have cracked that. Encouraging noises are coming from the ministers with responsibility for health and for education on the back of the “Social Focus on Deprived Areas 2005” report, which recognised the compounding effect of deprivation, as I said at the outset, in that they may be more minded to supplement universal services or a people-based approach with an approach that targets on a spatial basis. The process exists to handle such an approach but, at this stage, I cannot honestly say that the issue has been cracked.

Jim Mather (Highlands and Islands) (SNP): I am keen to return to basic principles of accountability. Are the objectives and outcomes that ROAs set consistent, uniform and

measurable? Are they expressed in a way that allows you to consolidate the outcomes and have that under statistical control, so that we know what we are achieving and what is liable to improve? I think especially of increasing economic activity locally and nationally to bring more people to live and work in Scotland's constituent parts. Does the widest possible range of stakeholders buy into working with you on those outcomes?

Ian Mitchell: The first point to note is that we expect all outcomes to be measurable and to come back down the chain to have outputs and an idea of who puts in resources attached to them. We have a framework whereby we expect outcomes to be clear and jointly agreed by the community planning partnership. In guidance that we provided on the regeneration outcome agreement process, we set out the five national priorities, as I said. We also suggested a menu of national indicators that are being pursued through "Our National Health: A plan for action, a plan for change" or "A Smart, Successful Scotland: Ambitions for the Enterprise Networks", for example, to which people have signed up and on which they collect information.

As I said, the community regeneration fund is certainly about national priorities, but it is also about achieving those priorities in a way that is sympathetic to local circumstances. Therefore, we gave community planning partnerships the opportunity to develop outcomes that are based on how they intend to spend their community regeneration fund money and other resources. They may have picked slightly different outcomes from the same suite.

Jim Mather: I will ask you to focus your mind on one outcome. I read the labour force survey month in, month out. It consistently shows about 630,000 economically inactive people and another 150,000 who are unemployed. Do you not want to focus on and drive down those figures over time?

Ian Mitchell: Absolutely. Issues have arisen over using unemployment for outcomes, but we are certainly interested in bringing more people into employment and in the sub-categories, such as whether people are registered as unemployed or receive other benefits. One outcome that we suggest is employment.

Jim Mather: In reporting to the minister, does one A4 sheet cross his desk monthly that shows the outcomes and the movement that you have achieved that month?

Ian Mitchell: It certainly does. However, the information does not all tabulate in a pure linear form to national priorities and how we are faring against fixed outcomes on the five national priorities, simply because we have given community planning partnerships the scope and—

rightly—some latitude to choose related targets. It is not a purely linear relationship; we do not take a national target and consider how everybody is contributing towards it. However, for each community planning partnership we can certainly give the minister a range of outcomes and explain how progress is being made towards those outcomes and how they, in turn, affect the national targets.

11:00

Jim Mather: Nevertheless, it strikes me that you are in a privileged position. There are outcomes downstream of you, but where are the outcomes for what you are stepping up to and for your objectives? Where do you say, "We will handle this £300 million and this is what we will deliver"?

Ian Mitchell: Ultimately, the outcomes are related to the closing the opportunity gap targets. The target that the community regeneration fund particularly seeks to influence is target J, which is a spatial target that says that, in the most deprived areas of Scotland, there shall be improvements in employability, health and the local environment. That is the ultimate arbiter by which we can gauge whether progress is being made. Is that what you meant by the—

Jim Mather: I was trying to get something that would pass the Donald Trump test, the Alan Sugar test or the Tom Farmer test, but nothing in what you said came close.

Dr Elaine Murray (Dumfries) (Lab): I want to ask you about the best way of allocating funding. A tension has been flagged up between an area-based approach—in your view, the Scottish index of multiple deprivation is a helpful focus in determining where funding should go—and a people-based approach. I will give a brief illustration. As you said, the better neighbourhood fund has been abolished and assimilated into the community regeneration fund. Dumfries and Galloway was one of the pilot areas for the better neighbourhood fund. Because of its geography and the fact that it is a rural area, the local authority chose to use a people-based approach and, in particular, to support elderly people and young people, although it found it difficult to meet the targets that were set. Now that that fund has been abolished, it is finding it difficult to get funding for such a people-based approach. Dumfries and Galloway lost out because it does not score well under the Scottish index of multiple deprivation. I am not arguing that everything should be funded from the same pot, but funding does not seem to be available for people-based programmes such as those that support older people in remote and rural communities that do not show up under the SIMD.

Ian Mitchell: I understand the point. We think that, as a measure of multiple deprivation, the Scottish index of multiple deprivation is a great advance on the former indicators. The community regeneration fund is about tackling concentrated forms of disadvantage, so it will be no surprise to you to hear that we think that the index hits the mark, albeit that there are one or two foibles.

I appreciate that, often, more people who are deprived live outside the designated deprived areas than within them. That is accepted. In the rural context, we have tried to be sympathetic and to get the right balance with what is ostensibly a spatially targeted fund. As I said, ministers state in the guidance that at least 80 per cent of the fund should be geographically targeted and, by and large, it is targeted at the most deprived 15 per cent of areas, in which the severity of poverty begins to steepen dramatically. That is the policy environment in which we operate, but within that we are as flexible as we can be, particularly in relation to rural areas, in which the take from the community regeneration fund is perhaps smaller than in larger urban areas where deprivation is more concentrated. In fact, where arguments have been made about natural communities—for example, in Kirkcubbin, which I mentioned earlier—we have moved considerably away from that approach. There are also a number of authorities who are hitting only two or three of the national priorities in ROAs, although that is not a problem as long as a focused approach is taken—for example, by tackling the transition for young people.

I do not know the precise details of what happened in Dumfries and Galloway, but it is certainly not a case that we flagged up as a particular problem. Within the parameters, we have been as flexible as we can be, and we got a good ROA from Dumfries and Galloway.

Dr Murray: Because Dumfries and Galloway was a pilot area, it has less money to work with, even if it concentrates on ROAs. I suppose that the broader point that I want to probe is whether we should have a single funding stream that is based on the Scottish index of multiple deprivation. I am not trying to deny the problems of multiple deprivation, but in a sense we have two different forms of deprivation. There are areas in which a lot of deprivation significantly disadvantages people and their life chances, but there are also communities of deprivation that are not area based but comprise, say, older people with low incomes or young people who do not have access to training and employment. This might be a difficult area for you because it is subject to ministerial decision, but perhaps those two types of deprivation should not be tackled from the same pot. Perhaps there should be different sources of funding.

Ian Mitchell: I am comfortable enough in saying that I appreciate the point. One of the five measures of deprivation is accessibility, but that was not particularly correlated with the others in the index, which suggests that, in some rural areas, access to services, isolation and the age profile are particular problems. The fact that those areas are not in areas of multiple deprivation does not mean that there are not issues that need to be tackled. I do not want to pre-empt any policy decisions, but those problems are probably best tackled outwith the framework of the community regeneration fund, which is about multiple forms of geographical deprivation.

Dr Murray: Tagging on something about the distance from the nearest supermarket is supposed to reflect the problems of rural areas, but that is probably not the best way to tackle the difference between multiple deprivation and deprivation in groups.

The Convener: Elaine Murray raises an important point. If, in rural areas, funding has to go to people-based issues, is the community regeneration fund, with its associated outcome agreements, the best way to achieve that? If there is an issue about rurality and the associated cost of delivering services, would it not be better to reflect that in the local government spending formula rather than to try to apply the community regeneration fund, which is geared towards dealing with urban concentrations of deprivation? In that way, presumably, you could reduce your overhead to perhaps 10 regeneration outcome agreements rather than 32 and simplify and clarify what you are trying to achieve.

Ian Mitchell: I had better not get led too far down that route, but I can see that that might be a more cost-effective approach. I take your point, although I say to Elaine Murray that the Scottish index of multiple deprivation introduced more than just drive times. It uses areas of about 750 people, which is the smallest area we have ever used. In time, we might be able to go further, right down to individual measures, but the index represents a pretty good go at small areas. In some smaller towns in rural areas—for example, Alness in the Highlands—the index has illustrated pockets of more concentrated forms of deprivation. I do not dismiss the framework for rural areas but I take the broader point that there are wider issues for rural areas, isolation being an obvious example.

The Convener: We have reached the end of the time available for this part of our evidence taking; however, as we have been unable to ask a number of questions, I hope that you will find it reasonable if we seek a written response to them.

I thank both witnesses for attending the meeting. They are, of course, at liberty to stay and hear what our next witnesses have to say.

I welcome to the meeting David Nicoll, chief executive, and Abigail Howard, head of policy and research at the Wise Group. I declare an interest as a member of the board of the Wise Group. I offer David a chance to make a brief opening statement, after which we will move to questions.

David Nicoll (Wise Group): I will keep my comments very brief.

I thank the committee for offering us the opportunity to give evidence today. I hope that, at the end of questioning, Abigail Howard and I will still be pleased to have had that opportunity—we shall see.

The Wise Group is a not-for-profit organisation that works to get unemployed people into permanent jobs. We operate across central Scotland and in Dumfries and Galloway and have introduced programmes in the north-east of England. Indeed, our experience in north-east England has highlighted some interesting differences in how this matter is dealt with in Scotland and England.

We operate on a reasonable scale. For example, last year, about 2,500 people went from one of our programmes into a job. The bulk of our funding comes from UK programmes rather than from Scottish Executive-funded programmes, although the Scottish Executive supplies a fairly substantial minority of our funding.

We feel that employment probably provides the best starting point and should be the key focus for any inquiry into deprivation. The executive summary to our paper sets out our main concerns about current spending on deprivation, but our biggest concern is that the index of multiple deprivation drills down too far. Indeed, I was horrified to hear Ian Mitchell say that the index could go below 750 people. In employment terms, that is meaningless. We believe that employment programmes should be based in travel-to-work areas. For Glasgow, that would take in greater Glasgow as well as the city itself. We would certainly not concentrate simply on Easterhouse in Glasgow or Wester Hailes in Edinburgh; instead, we must consider the whole labour market.

As much of the funding is cursed by short-termism and bureaucracy, we cannot focus on continuous improvement, which we feel is more important than innovation in such programmes.

I leave my comments at that, although I introduce my colleague Abigail Howard, who is our head of policy and research and wrote most of our submission. We have already agreed that I will simply shunt any difficult questions in her direction.

Mr Swinney: I suspect that I should first ask about your mechanisms for selecting your board

members, but I will leave that for a more private occasion.

Mr McAveety: They are probably as noble as the parliamentary processes for selecting committee conveners.

11:15

Mr Swinney: I am sure that they are.

I thank the witnesses for their submission. The executive summary strongly highlights your concern about the effectiveness of area-based spending. Moreover, in your initial comments, you expressed a concern about bureaucracy in the allocation of funding that I suspect you perceived percolating through our previous discussion.

Your organisation tends to get its hands pretty dirty in delivering programmes—which, in my view, it does effectively. Will you set out your concerns about area-based approaches to funding? What limitations should we be mindful of in making any recommendations on constructing programmes differently?

David Nicoll: The current set-up for funding programmes has a number of limitations. First, such programmes can reinforce a sense that people do not have to travel for a job. Members will forgive me if I use Glasgow again as an example—we work constantly in that particular area—but we often find that people will not travel from one part of the city to another for programmes or for jobs. By sending signals—

Mr Swinney: What sort of distances are you talking about?

David Nicoll: In some cases, the distance is 5 or 6 miles. There are several reasons for that situation—I will perhaps touch on some of them later—but one is that we are sending a signal that problems in Castlemilk, for example, can be addressed in Castlemilk. By and large, the jobs cannot be found there. We have to persuade people in Castlemilk that they must acquire skills to make them competitive with people not only from Castlemilk or Easterhouse but from the dormitory towns that surround Glasgow for jobs that are often in the city centre. Often, we do people a disservice by telling them that every solution can be found locally. That is clearly not the case.

We have also found that, particularly with young men on our programmes, there is something akin to a gang culture that makes them feel uncomfortable about leaving their area. In fact, fights have broken out and we have had all sorts of trouble between people from different areas. However, after they work for a while in a programme, they see that they are the same as a person from another part of the city and, as with

any work situation, they begin to see others as work colleagues rather than as potential rivals. We have focused far too narrowly on very small areas.

Mr Swinney: To continue with the Glasgow example, do you feel that the alternative is to design programmes that focus on renewal not in Easterhouse or Castlemilk but in greater Glasgow?

David Nicoll: Yes, but with the caveat that we are talking about employment-based programmes. I appreciate that other programmes are better focused locally.

The Department for Work and Pensions, which has the primary responsibility for employment programmes in the UK, is operating more and more in larger areas. For example, it sees Glasgow as a district. We have been told that, in future contracts, it will look for organisations that are able to operate at regional level rather than at district level. It is certainly not going the other way and saying that we should operate at a subregional level.

Mr Swinney: Beyond employment-based programmes, do you have any experience to suggest that, as far as this matter is concerned, we should consider other geographical areas instead of regions or districts such as Glasgow?

David Nicoll: No, not beyond employment-based programmes. We have introduced some physical regeneration programmes that are often quite properly focused on small areas. For example, if we are improving people's back courts, we need to focus very narrowly and locally on what they need. However, we feel that such programmes are a way of getting people work experience to make them more competitive for jobs.

Mr Swinney: In your submission, you are critical of area-based approaches to funding and suggest that we need to focus on a much wider area to ensure the success of your employability programmes. How does that approach fit with the current funding infrastructure and the schemes that you are bidding under?

David Nicoll: Because the bulk of our funds come from United Kingdom or European sources, our approach fits reasonably well with current funding schemes. However, things started to fall apart when we had the old SIPs. Our organisation received hardly any SIP funding because we found the SIP boundaries too small to be workable. For example, we would have needed to apply for funding in perhaps eight to 10 different SIP areas to run a city-wide programme. That was just not viable, as it would have taken only two or three SIPs to say no for a city-wide programme to fall apart.

Mr Swinney: So the current design of some funding streams militates against organisations such as the Wise Group putting together a programme to tackle employability in the wider sphere.

David Nicoll: Absolutely. The current focus prevents the development of a labour market-based approach for a travel-to-work area.

Mr Swinney: Let me move on to ask about the regeneration outcome approach, which has been much discussed this morning. I take it from your submission that you are more comfortable with that approach. What are the strengths of such an approach and what does it tackle? You said that the SIP-based approach did not deliver the type of infrastructure that allowed you to make an impact. In what way has the regeneration outcome approach been more beneficial?

David Nicoll: First, I point out that the regeneration outcome approach is better rather than ideal.

Mr Swinney: I will take that as a ringing endorsement.

David Nicoll: The regeneration outcome approach is better than what we had before because the community planning partnerships will—we are told—take a more strategic view of programmes than the SIPs did. Like all such things, we will need to wait and see what happens. The important thing is not what people say but how they act.

Mr Swinney: What has been your experience to date?

David Nicoll: Our experience to date is that engagement with the community planning partnerships has not been terrifically good.

Mr Swinney: Is that through lack of effort on your part or lack of invitation on theirs?

David Nicoll: I suppose that it might be a combination of both those things.

Mr Swinney: It is obvious that an organisation such as the Wise Group has a lot to bring to the party. If SIPs were too small, it seems a bit odd that you have not been more immersed in community planning discussions. I am keen to get to the bottom of why that is the case.

David Nicoll: By and large, I think that the reason is that partnerships tend to be partnerships of funders, and delivery organisations tend to be absent from their discussions. About a year and a half ago, we wrote to perhaps 10 or 12 of the embryonic community planning partnerships to offer to get involved, but I am still waiting for our first reply.

Mr Swinney: Let us accept that there is a difference between the funders of programmes and those such as yourselves who deliver them. Does the emerging evidence suggest that the new structures have addressed your concerns about the previous approach? Are programmes now more broadly designed and, therefore, more capable of fitting in with your aim of improving the employability and prospects of individuals?

David Nicoll: We have not seen such evidence yet, but the caveat is that it is early days.

Mr Swinney: Finally, I want to ask about the Scottish index of multiple deprivation. You said that you were concerned about it drilling down to population groups of less than 750. Has the SIMD attracted a status that may be counterproductive to achieving the policy objectives of the Government and its various agencies?

David Nicoll: That is a possibility. The document is comprehensive. Some of the interesting messages that have come out of it are not often stressed, such as the fact that the majority of income-deprived people in Scotland do not live in the most deprived 15 per cent of data zones, even in Glasgow. There is so much information that it can be interpreted in almost any way one chooses.

Mr Swinney: I return to a point that my colleague Elaine Murray raised with the Communities Scotland representative a moment ago. Does the index of multiple deprivation encourage policy makers to consider area and geographical solutions rather than people-based solutions?

David Nicoll: I think so, but we will have to wait to see what evidence emerges.

Mr Swinney: Given all the mid-year reports, annual reports, policy evaluations and other concepts that we learned about this morning, what would be a fair point at which to say that the index is working or is not working?

David Nicoll: I am not sure.

Mr Swinney: Thank you.

The Convener: In one of the case studies you mention the working for health in greater Glasgow project. Will you compare and contrast the interest in that project from the Executive and from the Department for Work and Pensions? It might be useful for you to describe it briefly first.

David Nicoll: The WHIGG project is a programme that we are running with the health board in Glasgow. In essence, it provides people with a six-week preparation for applying for jobs in the health service. The jobs are not guaranteed; the project aims to make people more competitive. We work with people on their interview skills and

core skills and on presenting their CVs. As part of the programme they get tasters in hospitals.

The programme has been tremendously successful. In its pilot phase, 70 or 80 per cent of the people who took part in it got a job and more than 80 per cent of them came from SIP areas. The programme was designed to work throughout Glasgow, but it was targeted at the unemployed, so the bulk of people who took part came from the SIP areas.

We have received a fair amount of interest from the Department for Work and Pensions about the WHIGG project, which it thinks could be replicated elsewhere. We received some interest from the Executive as well; Andy Kerr officially opened phase 2 of it. Although we are trying to establish the project elsewhere in Scotland, it has been difficult to get that moving. We are finding that because much deprivation spending is short term, although it is not difficult to get funding to run pilots, it is difficult to translate the pilots into mainstream projects.

A better example is the project that we are running in Edinburgh on homelessness, which has been fantastically successful. Everybody who comes across it loves it and is positive about it, but in June 2006 it will run out of money and there is no sign that more money will come from anywhere.

Mr Swinney: What is your estimation of the need that remains to be tackled through that project?

David Nicoll: The need is huge, because some groups, such as the homeless and people with substance abuse problems, are particularly disadvantaged when it comes to competing in the labour market. That need will not go away; it will still be there on 1 July 2006.

Mr Swinney: But the project will not.

David Nicoll: Not at this rate.

Mr McAveety: In your submission you said that the short-term nature of funding is a major drag on wider regeneration strategies. Will you expand on what you mean by that?

11:30

David Nicoll: There are two points to make. Funding is often very time limited. Someone will give us funding for 12 months to get a pilot up and running, which is great. The difficulty is where to get funding for the next year or two if the programme is successful. There is money for pilots, but to keep programmes running we have to get into councils' core budgets, which are horribly overstretched and to which we cannot get access.

Secondly, when funders deal with the social economy sector, they do not behave as if they are dealing with businesses. We might be businesses that value public service and public interest, but we are businesses nonetheless and we have to run to normal business rules. I will give you an example of what I mean. We signed up to deliver X number of jobs for a local authority, which shall be nameless; the authority was looking for a certain percentage of jobs and a certain number of training weeks. We exceeded the targets easily—we blasted them apart—but the local authority came back to us to say, “Your indicative budgets for this programme said that this person would spend half a day a week doing such and such a thing; we have since learned that they didn’t do that, so can we have our money back for that part of the programme?” When we buy electricity, we do not say to Scottish Power, “We want X kilowatts at Y price, and by the way, we would like to come back and check everything that all the members of staff do.”

One of the curses of development in the social economy is that the full recovery of costs and freedom to do things varies according to the funders. Some are good with such matters—Glasgow City Council is an example of that.

Mr McAveety: If we were to try to shift the dynamic towards longer-term funding, what two or three approaches would benefit the kind of clients with whom you deal, who operate more on a regional basis than on a local community basis?

David Nicoll: The critical thing is that funders should fund organisations that deliver the outcomes that they want. Funders should work with those organisations to deliver continuous improvement rather than innovation, for example. The aim should be reasonable performance rather than the crazy things that we sometimes see.

Funders should contract with us to deliver X per cent of people into jobs; if we do not do it, they should sack us. The problem is that that does not often happen; so much is tied up in the concept of partnership that people simply do not get rid of poorly performing organisations.

Mr McAveety: Are you saying that dismissal is a good accountability mechanism?

David Nicoll: Absolutely. We work well for two reasons. First, people genuinely believe in what they are doing; secondly, people know that if they do not work properly, they will lose their jobs. I am sure that the board would have no compunction in sacking me if I were not doing my job, and that applies throughout our organisation.

Mr McAveety: The weekend papers included some coverage about the DWP work and partnership stuff. In parts of my constituency, seven out of 10 folk claim incapacity benefit.

Somewhere on the continuum, there are individuals in the ILM network with whom you deal. The field is crowded, and a range of partners is involved. How would you streamline the field to get better efficiency as well as more effective outcomes? How would you prevent people from being moved around so many different providers? I have a hunch that some folk nick about between different providers over a two or three-year period.

David Nicoll: I will borrow Ian Mitchell’s phrase about things that wind us up. One of the things that tends to wind me up is hearing people from the public sector say that there are too many delivery organisations involved and that there is too much clutter. Too much clutter for what? Too many delivery organisations for what? That is a strange way to look at the situation. People should be looking at performance—that is how to declutter. Decluttering is achieved not by agreeing around a table what the way forward should be and what delivery agents will be used, but by getting rid of poor performance. We have been exceptionally bad at doing that.

Mr McAveety: How should we reach conclusions? What mechanisms would you use that are not used at the moment to decide what is and is not a good performer? Our earlier discussion, which you observed, revealed concern about the lack of an end point.

David Nicoll: We have a contract with the Department for Work and Pensions to deliver part of the employment zone in Glasgow. As part of that contract, we commit to getting Y per cent of positive outcomes—getting a certain number of the people who start into jobs. We have two big incentives to do that properly. First, we are paid on outcomes rather than on starts, which shapes our behaviour. Secondly, the DWP made absolutely clear to us at the start that it will take the contract away from us if we do not hit the targets. Contract management is a simple way of reaching conclusions.

Dr Murray: I seek your views on a point that I was trying to develop with Communities Scotland. Instead of having 32 areas with ROAs and lumping in the people-based community of interest deprivation programmes with the multiple deprivation index, would it be beneficial to separate those out, so that you could tackle the problems of multiple deprivation in particular localities separately from funding the people-based community of interest programmes?

David Nicoll: Absolutely. Deprivation exists where it exists. I give the example of some rural communities. We work in Dumfries. I should not perhaps regard that as a rural area, because we work in the town. Dumfries does not look like a particularly deprived area, but there are unemployed people in Dumfries. Should we deny

them the opportunity to improve their lot because there are not sufficient concentrations of deprived people in that locality?

Dr Murray: I am well aware of the work that you did in Dumfries with Irvine Housing Association. What targets do you have to reach and how is your performance evaluated? Is that done purely on the basis of whether you have got people who have been long-term unemployed into work? Is there any evaluation of what you have done for community regeneration and so on?

David Nicoll: It depends almost entirely on who is paying us to do what. One complexity of our funding is that I can hardly think of an instance in which there is a single funding stream to a programme. Sometimes there are as many as six or seven streams, for each of which we must deliver outcomes. In the case of the project in Dumfries, one of the outcomes was simply that Irvine Housing Association wanted its housing stock to be improved. In a way, it did not care that formerly unemployed people were doing that. The work had to be done, and it had to be done to commercial standards.

We make use of schemes such as training for work, which is provided by local enterprise companies. Under a training for work contract, a LEC is interested not in the physical part of what we do, but in the job outcomes. It is important that in such cases local circumstances are taken into account. In some areas it is not possible to move a high percentage of people into jobs, because jobs simply do not exist. In our view, it is better for people to do something socially useful for a year, getting a wage for that and having some sense of hope restored, than for them to sit watching daytime television.

Dr Murray: You have commented on the problems of bureaucracy and having several sources of funding. Is it a problem meeting targets when the targets that are set by different agencies are very different? Do difficulties arise from what you are expected to do by the different people who fund you?

David Nicoll: It is not straightforward—a fair amount of juggling is needed to get things right. However, we have the advantage of having quite a long experience in doing that. Ultimately, I would rather have several funding streams than a single fund. The danger with having a single fund is that all your eggs are in one basket. If the fund is badly run or badly organised, there will be more problems.

The Convener: There is an implied contrast between the picture that you have created of the Wise Group as a delivery organisation that is strongly focused on outcomes or outputs and Communities Scotland, from which we heard

earlier, which has a perhaps more theoretical approach that involves people simply talking to each other about their objectives. Communities Scotland has a safety net, whereas the Wise Group is only as good as its last set of performance outcomes. Is it always a good thing to be in that position? Could your position be improved by allowing for some vestiges of a safety net or some elements to ensure your continuity?

David Nicoll: For the first two years after I took over as chief executive, I thought that the holy grail was to achieve core funding as that would provide greater certainty, but I now think that that would have been disastrous. It can happen that, for a relatively small amount of money, the organisation that provides the core funding obtains a disproportionate influence over the delivery organisation. In some ways, the absence of a safety net is actually quite a good thing.

I add the caveat that funders need to understand that we are a business. Although we do not generate profits, we need to generate a surplus to cover our bad years. In 1999-2000, we lost a grand total of £1.6 million—we had a very poor board that let us run up those losses—but we did not go running to anybody to ask for that money. The loss was covered by our reserves, as would happen in any ordinary business. If funders will not let us build up reserves, all that will happen is that we will need to run to our funders for help when we have a bad year.

Mark Ballard: Further to the questions that Elaine Murray and Des McNulty asked, have you any comments about the overall funding and support that you receive for tackling deprivation and poverty and the funding and support that you receive as a social enterprise? Will you expand on that a bit?

David Nicoll: By and large, the funding that we receive for tackling deprivation is sufficient. I will not say that we should have more money, but I would like greater flexibility in how we use that money. I believe that our funders' sole concern, apart from honesty, should be whether we deliver what we said we would deliver. The bureaucratic overhead in developing and running projects is utterly enormous. Over 2003 and 2004, we had a grand total of 52 audit and verification visits—that works out at about one visit a fortnight. When I visited the Deputy Prime Minister, he was so appalled about that that he said that something must be done, but we are still waiting for that to happen. We believe that we are overregulated in some ways but we think that the level of support is broadly fair.

On the support that we receive as a social enterprise, we were allocated money by futurebuilders for upgrading our information technology system. That was welcome, but it is

important that the committee and ministers do not get carried away in their thinking about futurebuilders. From memory, the futurebuilders fund has a grand total of £18 million, which is not enough to effect a significant improvement in the asset base of the social economy sector. When our organisation considered constructing a relatively small building in our car park, the cost was estimated at £7 million. One can see very quickly that, if the £18 million is to be applied across a number of organisations, it will not last very long. There is a mismatch between the good intentions of supporting the social economy and the reality of how much is needed to improve the asset base.

11:45

Mr Swinney: Is that not a rather dangerous approach for the futurebuilders programme? Quite clearly, there is an enormous level of need that futurebuilders should have been trying to tackle. However, my knowledge of the futurebuilders programme, and my experience of isolated projects in rural areas such as Glen Esk in my constituency, show that an enormous number of applications were rejected because of oversubscription to a programme that simply could not deliver on a reasonable expectation of the difference that investment could have made to the social economy.

David Nicoll: The level of investment that would be needed would far exceed any programme that the Scottish Executive could reasonably be expected to fund. We are talking about very large sums of money and I understand that ministers have lots of priorities.

The voluntary sector should not expect to be funded just because it is the voluntary sector. In my previous roles, I have seen many applications from small and large organisations that have been frankly terrible; the organisations do not deserve to be funded. People are often given the polite reason that the funding is oversubscribed rather than being told that their programme is awful.

Mr Swinney: In that case, are we not creating an enormous bureaucracy to pussyfoot around telling people that their programmes are awful? If an organisation's programmes are awful, it will be told that and it will not get any funding. What is wrong with applying that test across the board? We might reduce the volume of bureaucracy that is involved and thereby make more money available for the investment funds that make a difference to people's lives.

David Nicoll: Part of the problem comes from trying to be inclusive with funds. It is about saying, "Here is a fund that can be used to do something and we want everyone to bid in to it." I will not say

anything that I did not say when the futurebuilders programme was being developed, but that programme is aimed at hundreds of organisations. When money such as the seedcorn funds of £6 million is divided into small chunks and spread across hundreds of organisations, they might be able to afford a better quality of biscuit at their meetings but that is about all they will get.

Mr Andrew Arbuckle (Mid Scotland and Fife) (LD): In your introductory remarks, you mentioned that you are working on projects in the north-east of England. Is there anything that we could learn from your experience of operating in that area?

David Nicoll: The critical thing that we have learned that would be useful for the Finance Committee is that those in the north-east of England have tended to work on larger geographical units and that has been more helpful. The other lesson might sound a bit cheeky, but it might come up in future business. In European funding, do not touch co-financing with a bargepole. It has been a real disaster and we should be thankful that we do not have it in Scotland.

Mr Arbuckle: You indicated that employment is a key way of tackling deprivation. Does that not depend on the quality of employment that is provided or created?

David Nicoll: There is no question but that there can be in-work poverty. We often come across people who will say, if we offer them a job to apply for, "I will only be £5 per week better off and I will have to travel as well." We say to them that if they stay on benefit, they will still be on the same level of income in three or four years' time, whereas if they take the job, they might be more than £5 per week better off by then. However, we have to consider how to make work more attractive to people. There has to be push and pull on that.

Derek Brownlee (South of Scotland) (Con): I like the emphasis that you place on the labour market, which intuitively sounds the right way to go. How do you demonstrate that you make a difference? How do you demonstrate that if you were not providing the labour market programmes, the outcomes would not happen anyway?

David Nicoll: To be brutally honest, we cannot demonstrate that, because the only way to do so would be by not existing, which is not possible. Given the make-up of some of the people who go through our programmes, we feel intuitively that they probably would not get jobs without additional support. We have just performed an exercise on the more than 1,000 people who went through our training for work programmes in 2004. Fifteen per cent of them had substance abuse problems; 72 per cent of them came from workless households; about 50 per cent of them had three or more

individual barriers to gaining employment. Despite all that, more than 50 per cent of them got jobs. I cannot believe that the labour market would have absorbed those people by osmosis.

Derek Brownlee: I accept that if you are delivering a positive outcome it would be harsh not to operate the schemes because that would disadvantage people, but could you do any sampling to compare similar areas in which you do not operate? Can you make the system more robust, so that you can say, "This money is being spent effectively. It is delivering something"? Your evidence suggests that money is being spent to tackle the problems using more innovative and non-traditional methods that are not as demonstrably effective.

David Nicoll: I honestly think that it would be almost impossible to do what you suggest, partly because we work in areas—apart from Edinburgh—with high levels of deprivation. If you go to almost any city or town in the UK, you will not find a Wise Group, but you will find people doing similar things. You would need to find somewhere where that was totally absent.

The Convener: But there are measures of comparative performance. The DWP gets on to—

David Nicoll: Absolutely. We run contracts for the DWP. With employment zones, for example, it publishes national results, so we know how we are doing compared with other providers, and other providers and the DWP know. Results can throw up interesting points that might make people question the effectiveness of some of the programmes. One of the things that we are told with monotonous and depressing regularity by people who have not thought it through properly is that the ILM is expensive. Expensive compared with what—sitting doing nothing? However, you can then look at a labour market such as London, which has employment zones aimed at short-term interventions, which cost £17,000 a job. That is not an effective way of doing things.

Derek Brownlee: In terms of resources, everyone—particularly your organisation—is limited relative to the other agencies and organisations in the area. Compared with the size of the public sector—for example, local authorities and the national health service—you are dwarfed. The project with Greater Glasgow NHS Board sounds interesting, but how else do you try to tap into its resources and apply them to your organisation's ends?

David Nicoll: We have a fairly tried and tested means of doing that. We have a development and funding department that works with partners to bring forward projects that we think will work and that they think will work and are prepared to fund. Our acid test of partnership is whether people will

pay for the programmes that are run, rather than whether people will sit round a table together.

Jim Mather: I have been extremely impressed by what I have heard. In particular, I am interested in exploring your comment about your consistent and perpetual quest for improvement, the philosophical roots of that quest and the audit trail of how you got to it and grasped it. However, much more important than any of that is how you explain to your client base that they should engage with the consistent attempt to improve their lot.

David Nicoll: It is incredibly difficult to do that. It would be fair to say that there is a culture of cynicism among many of the people with whom we work. They have had bad experiences throughout their lives, so it is difficult to persuade them that things can get better. I can illustrate that through a couple of examples.

We went to the United States a few years ago to examine how not-for-profit organisations there operated compared with those here. What jumped out were the cultural differences around people's enthusiasm. We visited what was called an automotive repair facility—a garage, to the rest of us—in Newark, New Jersey, which was full of local unemployed people. They were all men and, to a man, they were black. They believed that they could significantly improve their lot through work and they talked to us about what they wanted to be. They also told us that a board member who was New Jersey's largest Ford dealer would come along once a week and give them money management lessons. They loved that man and wanted to be him.

Then we had an experience whereby John Milligan, who is the head of the welfare to work task force and is at least as rich as the New Jersey car dealer, came along to an induction for a group of our participants. He tried to do something similar to what the New Jersey man had done, saying, "I started out working and now look at me—blah, blah, blah", but it was horrible. He went down like a lead balloon because our people made no association between his life and theirs. They did not believe that they could become him. That terrible cynicism is a big barrier for us.

We believe that funders should hold us accountable for continuous improvement, but give us the conditions in which to achieve it. European funding, which we use significantly, is one of the best examples to illustrate that. European funding is broken down into measures and priorities that drill down to all sorts of things. We put massive amounts of effort each year into writing applications for another year's European funding. Therefore, we proposed a scheme to the Executive in which it would say to organisations, "We know that, by and large, your funding

applications succeed year after year. Instead of putting your resources into writing applications, we'll contract with you for five years, but we want your results to improve each year. If they don't improve, we'll take the contract away from you."

Jim Mather: That is extremely interesting. I have been doing work recently on the W Edwards Deming philosophy. Essentially, it says that people in any system are responsible for only 15 per cent of the outcome. The system itself, with its raw materials, training and recruitment procedures, machines, structures and processes, dictates that. As we move into a more automated future, people are now saying that the ratio is perhaps 97:3. In such a climate, can you see better ways of explaining to folk that it is not their fault that they are in the position that they are in and of giving them more hope and a more enthusiastic approach to improving their lot consistently?

David Nicoll: One of the things that the UK Government is doing that is absolutely right is to instil in people that they have responsibilities. Accepting responsibility is a good starting point for people seeking to improve their lives, but they will also need help. For example, there is no point in someone who lives in a run-down tenement in Shettleston saying, "I can change my life," if there are no conditions around them that would allow them to do that. The job of the Executive and the UK Government is not only to create such conditions but to tell people that they must take some responsibility themselves.

12:00

Mark Ballard: In your submission, you make a strong statement in support of community consultation and argue that

"if people who are the beneficiaries of regeneration activity are not engaged in the process of developing it then it is less likely to be successful."

However, you also question the extent to which local people should be involved in deciding how funding is allocated. Will you highlight examples of the problems that arise when local people are overinvolved?

David Nicoll: Sure. The first issue is how representative people are. Studies have been undertaken that show that a local élite tends to be involved in community activism. That is great, but it is arguable that such people are no more representative than anybody else is.

The second point is perhaps difficult to argue. We live in a representative democracy. As an organisation, we believe that people elect politicians to formulate policies and not simply to pass decisions back to the public via referenda. Middle-class people are almost never asked how

money should be spent in their areas, so why do we place that burden on the poor?

Mr McAveety: That is a good point. The nub of your submission is that if decisions were put to referenda, the priority that other people gave other objectives would dwarf your objectives, as you deal with many folk who are on the edge and who need much support—people whom some might say should pull themselves up by their bootstraps and so on. I think that that is what your submission argued.

David Nicoll: Absolutely. I am afraid that the concept of the deserving and undeserving poor is still alive and well. We have often thought that if we put a picture of a sick donkey on our promotional material, we would do rather better.

The Convener: I thank David Nicoll and Abigail Howard for coming along. I do not know whether we did not ask David any difficult questions, as he did not pass any questions to Abigail. We enjoyed the responses that we heard. As I said to Ian Mitchell, we did not reach a couple of questions, which we may deal with by correspondence. I thank both witnesses for appearing.

I suspend the meeting for two minutes for the witnesses to change over.

12:02

Meeting suspended.

12:04

On resuming—

The Convener: We will hear evidence from three community planning partnerships next week and the Minister for Communities will give evidence on 22 November. We wanted three ministers to give evidence, but the Minister for Communities has said that, as he has lead responsibility for many of the cross-cutting activities that relate to regeneration, he will lead on evidence giving and will be supported by appropriate officials. Given how the deprivation inquiry is progressing, we might need to invite the Minister for Health and Community Care and the Minister for Finance and Public Service Reform more overtly to speak to us in due course. However, perhaps the time is not right for that yet.

Council Tax Abolition and Service Tax Introduction (Scotland) Bill: Financial Memorandum

12:05

The Convener: Item 2 is consideration of the financial memorandum to the Council Tax Abolition and Service Tax Introduction (Scotland) Bill. I apologise to Tommy Sheridan and Gordon Morgan for keeping them waiting. They will appreciate that we were receiving some interesting evidence, part of which they sat through. Gordon Morgan is a researcher for the Scottish Socialist Party and I think that we all know who Tommy Sheridan is. After Tommy has made a short opening statement, we will proceed to questions from members.

Tommy Sheridan (Glasgow) (SSP): I spent several hours working on my introductory remarks, but those have now been thrown asunder, because they started with “Good morning”. It will now have to be “Good afternoon”.

The financial memorandum, of which all members have a copy, is largely robust, but it includes some typographical and statistical errors. Those are referred to in the Scottish Executive submission that members have in front of them. The financial memorandum was based on six rates of taxation to be applied for the service tax, whereas the bill is based on five rates. In other words, a median rate of 8 per cent was removed from the bill, so the generated surplus is different from that which is suggested in the financial memorandum. The important point to make is that the Scottish Executive accepts that the surplus that is generated is still substantial—some £313 million.

I turn next to the provisions of the bill that deal with extinction of poll tax debts and council tax debts in excess of two years. The committee has received a supplementary paper that provides evidence to back up the argument that is made regarding the revenue that would be lost to the Scottish Executive, which is in the region of £100 million to £150 million. Gordon Morgan has worked hard to extract that information and will be only too happy to deal with detailed questions on the matter. It is an issue of 0.2 per cent here or there. We believe that the memorandum is robust in that respect.

My final point is that the majority of the costings that have informed the memorandum and the bill have been taken from the work of the Chartered Institute of Public Finance and Accountancy in England. Its report on improving the balance of

funding is considered to be the most up-to-date and reliable paper for estimating the costs of removing council tax and replacing it with a form of local income tax.

We have tried at every turn to disaggregate figures for Scotland. I argue that we have not considered the lowest cost but have used a less than generous set of assumptions when estimating costings. I hope that individuals will bear it in mind that one of the biggest criticisms of local income tax that CIPFA makes consistently relates to the administrative set-up costs across the 400-odd local authorities in England and Wales. However, in paragraph 6.34 on page 35 of its paper, it states:

“A LIT would be a simpler and more realistic proposition if based on a universal structure of unitary authorities like that serving Wales and Scotland.”

In other words, the administration and set-up costs would be much fairer if a local income tax were set up across the whole of Scotland, rather than in the way that is proposed by the Liberal Democrats in England and Wales, which would require each local authority to set up the tax.

I invite questions from members either to Gordon Morgan or to me.

The Convener: Just before we move to questions, we should bear in mind a couple of points. First, the Finance Committee is not concerned with the policy approach; we are purely concerned with the details in the financial memoranda. Gordon Morgan’s submission about council tax to the Local Government Committee appeared before us only today. It might be that some follow-up questions will arise from that submission, which we will pursue in correspondence. However, if members have had a chance to absorb all that information, they can ask questions today.

What is the basis for your estimate of the start-up costs as being between £3 million and £10 million?

Gordon Morgan (Scottish Socialist Party): A lot of the costs are in the CIPFA paper. Much of the work would be in the development of information technology systems, such as the Sage accounting package, in HM Revenue and Customs as well as in commercial firms and others that would be obliged to have a second set of accounts as part of a general tax programme for Britain.

From our informal talks with officials—we have not had an official response from the Inland Revenue—we know that much of the preparation work on the variable income tax for the Scottish Parliament has already been done. It says in the CIPFA paper that the largest costs that are associated with the work are for the determination

of address. If there were to be a variable income tax in Scotland, whether someone works or lives in Scotland would be one of the key factors in determining whether they would be liable to pay the variable income tax rate. We understand that that work has already been prepared. The Inland Revenue changes represent the most substantial work. There would be an ability to include additional codes as there is in regard to budgets.

I speak with 30 years' experience in IT, in which I had responsibility for fairly large projects. The basis of the estimate includes some of the CIPFA figures, but it also takes cognisance of the work that we have already done. I do not believe that there would be substantial costs to the Inland Revenue in the development of the work.

Employers would simply have a set of codes, which would normally be in electronic form but would perhaps be in book form. That one set of codes would cover the whole of Scotland and replace the existing sets. There would be no administration costs for them. We are assuming that local authorities would enter into an agency agreement with the Inland Revenue. Local authorities would need to enter receipts from the Inland Revenue and the numbers in each local authority area would have to be determined. It is obvious that we need to go into the details. The CIPFA paper refers to approaches that are taken in other countries, such as Japan. If one takes an aggregation approach throughout the country, one can determine the tax on the basis of a person residing and working in one local authority at the beginning of the year and then make a general assumption on that.

We reached the estimate based on those considerations—it is in the ballpark of £2 million to £10 million, depending on the precise choice of scheme and detail that would be implemented.

The Convener: I want to pursue you on a couple of those points. The devolution white paper in the late 1990s set the cost of introducing the income tax-varying power at £10 million. What you propose is more complex than what was proposed in that white paper because you suggest introducing six income bands and different tax rates. You also have a distribution factor between the local authorities—I presume that the revenues would need to be allocated on the basis of the tax collection or that at least some assignment would have to be made. The process that you have set out is more complex, but your top-end figure is the same as the figure that is given in the white paper for introducing a simpler scheme.

12:15

Gordon Morgan: The key element is the postcode, because identifying where a person

lives will tell us which local authority area they live in. Local authority disaggregation will be based on information that is available from the Inland Revenue scheme that I am assured is already in line to deal with the variable income tax rate. As a result, our proposal has close identifications with the local income tax scheme.

Although there would be six tax bands, there would be only one set of tax tables for the whole of Scotland. In some cases, separate entries might have to be made for national income tax and the service tax. However, the computer system will have to deal with only one set of tax tables, which will give two totals at the end. Although a little more programming will be involved, the scheme itself is still simple and unitary.

Tommy Sheridan: From our informal chats with Inland Revenue representatives, who will have a chance to get this information on the record when they speak formally at the Local Government and Transport Committee meeting on 8 November, we know that much of the set-up, recoding and sheer admin work that the costs highlighted in the Scotland Act 1998 referred to had already been carried out in the event that the Parliament chose to use its tax-varying powers. As a result, the £10 million cost in the 1998 act is not at the top end at all. The tax collectors we have spoken to have told us that, once implemented, the system will not be costly because they will provide largely the same service that they are already providing for income tax collection.

The Convener: You have set out assumptions about the collection of tax either by local government or by the Inland Revenue. Why have you assumed that there will be no cost to employers if the service tax is collected by the latter?

Tommy Sheridan: Simply because, as Gordon Morgan and I have already stated, employers will receive a new set of tax table instructions. They will not have to carry out any extra calculations. All Scotland-domiciled employees, including those who live in Scotland but work in England, will have a separate code that will identify them as such. Inputting such information should not require any extra IT staff to be employed.

The Convener: That view was certainly not shared by Confederation of British Industry representatives when they spoke to us three years ago about a 3 per cent increase in tax. We should perhaps cross-reference your comments with what they said.

You have assumed that if local authorities collect the tax, the cost to employers will be between £87.4 million and £91.8 million. How did you arrive at those figures?

Tommy Sheridan: As that question brings us back to the CIPFA paper, I ask Gordon Morgan to answer it.

Gordon Morgan: The financial memorandum contains two tables, the first of which comes after paragraph 17 and the other after paragraph 19. The first table, which is entirely lifted from page 45 of the CIPFA paper—I have a copy if the committee wishes to see it—identifies the cost of collection by local authorities at £2,320 million to £2,460 million if we factor in the extra Inland Revenue cost of supplying information to them. There would be substantial cross-traffic to local authorities if they were to collect the revenue and set up collection mechanisms. They would, in essence, have to have duplicate sets of Inland Revenue-related information and there would be an enormous cross-check.

We have taken the figures and disaggregated them for Scotland, based on proportionality. We have assumed 8.46 per cent—this is in paragraph 18—for Inland Revenue administration and between 7.3 and 8.36 per cent for local authorities. We have taken the costs and applied them down to local authority level. The cost for local authority staff to collect the Scottish service tax comes to £67 to £70 million.

Although there is not an awful lot of movement between Scotland and England in regular work, people move frequently between local authority areas in Scotland. With such movement there would have to be multiple returns in relation to the coding structure, so authorities might be more interested if a person was in their area for part of the year and in another area for another part of the year. If there were variable rates, people might be encouraged to move their residence to another area. There would be a substantial additional burden on employers of form filling. We have assumed 8.2 per cent of the national figure if the local authorities collected the tax. The aggregate of Inland Revenue, local authority and employer costs comes to £161 million to £180 million, based on the CIPFA estimates.

The Convener: You have made an eloquent argument about why it is not possible to collect the tax on a local authority basis. The costs and complexities would be so unmanageable that local authorities could not collect it. Is that a fair conclusion?

Tommy Sheridan: Gordon Morgan can reply too, but I just want to make the point that there is no hiding the fact that the proposal is related strongly to the suggestion that local authorities should contract to the Inland Revenue for the collection. We are not saying that that is an optional extra; there is no doubt that it is an important element in the success of the bill. If local authorities refused to contract, the costs would be

large. However, with the £313 million extra revenue that would be generated, we would still generate more money than the council tax is generating. Less surplus would be generated, but we would not be moving into a deficit position in funding the bill.

The Convener: I shall leave the issue of surplus to one side. I just want to be absolutely clear. Gordon Morgan talked about the costs and complexities associated with collection by local authorities. He was eloquent in setting out some of those complexities and I am sure that others could be identified. One always ends up with additional problems that were not envisaged when one introduces a new scheme of this kind. As Tommy Sheridan summarised, the practicalities of the proposal are such that the tax could be collected only through the Inland Revenue and not by local government acting on its own.

Tommy Sheridan: My only dispute is over your use of the word “only”. It could be done by local authorities; it would just be a lot more costly.

Mr Swinney: The point that the convener is getting at is whether it is your preference to collect the tax through the Inland Revenue.

Tommy Sheridan: Absolutely.

Mr Swinney: That is fine.

What consequential assessment has been made of the impact on local authority employment of the collection of the tax through the Inland Revenue?

Tommy Sheridan: The policy memorandum states clearly that we envisage a policy of retraining and redeployment within local authorities, particularly given the issue of the surplus. I am sorry to return to it, but the issue is very important in this context. If we were to propose a measure that raised less money than the council tax raises at the moment and that involved the replacement of council tax finance staff, the question of how we could afford to redeploy those staff would be raised.

The key element in the £313 million surplus is that more than enough money will be made available for distribution to the local authorities for redeployment and retraining purposes.

Mr Swinney: Before you go any further, I should say that I am not pursuing the question of the surplus. I am interested in a quantification of the impact of the measure on local authority staff numbers. Obviously, one calculation for the financial memorandum is the cost of redeploying and retraining local authority staff. If we are to drive that calculation, we have to know how many people are involved.

Tommy Sheridan: Unfortunately, we have had no co-operation from the Convention of Scottish

Local Authorities on a breakdown of each local authority's employment of finance staff. COSLA has refused to give us the information that would allow us to make a detailed breakdown of the number of individuals who are employed in posts that are, in the main, solely for council tax collection purposes. In fact, COSLA has also refused to give the information to the Scottish Parliament information centre, which is unfortunate.

Some finance departments would make the point that their staff are not employed solely in council tax collection but are also involved in housing benefit calculations and administration. The level of information that COSLA has provided makes it impossible to make detailed calculations. That is why I am giving generalised figures for the money that would be made available to the local authorities for redeployment and retraining.

Mr Swinney: But you accept that, as a result of the bill, a group of local authority employees would no longer carry out the functions that they undertake at present. At the moment, you are unable to define the number of individuals involved and the likely cost of retraining and redeploying them.

Gordon Morgan: I will come in on one aspect of the question. We know from the Accounts Commission that the cost of collection is £68.5 million. We have indicated that that figure would be reduced to £12.7 million. The difference is therefore £56 million. Although some of the money may relate to IT systems, most of it will be staff costs and money would be available to redeploy and retrain them. The difficult question relates to the number of staff and the basis on which they are employed. If we adopt the figure of about 20,000, we come to the figure of about 2,000 staff across the piece who would be the subject of redeployment.

We have estimated the time for redeployment and have put the overlap at about three to four months. We are looking at an exercise that would have to take place across the whole of Scotland, with some lead-up time to the changeover. We estimate that three to four months would be needed for such a redeployment exercise.

Tommy Sheridan: You will see that the cost saving is established under paragraph 20 of the financial memorandum. The words "per annum" are missing, however. We state that there will be an estimated saving of £59.2 million, but it is expressed as if it were a one-off saving. Of course, it is a per annum cost—that is the level of saving we are talking about. You are right to state categorically that no council tax collection departments would exist. Those who worked solely on council tax collection would no longer

work on that job. We would like them to be retrained and redeployed elsewhere.

12:30

Mr Swinney: It is accepted that at that point redeploying such individuals would in effect be a charge against the taxpayer, whether it related to the surplus from the service tax or to the general cost of introducing such a scheme.

Tommy Sheridan: Absolutely. The charge would be based either on the surplus or on the savings, which are not part of the surplus that would be generated. The £59 million of savings are not part of the £313 million surplus, so approximately an extra £60 million would be available to spend on retraining and redeploying people.

The Convener: I will ask about billing arrangements for individual service tax payers. I see nothing in the documentation about a mechanism for costing that is attached to billing. How would people find out what they were due to pay?

Tommy Sheridan: We assume that the Inland Revenue as the collecting agent would have codes on payslips that told people how much their SST bill would be. Self-employed people who submit self-assessment forms would be subject to the same level of self-assessment as the Inland Revenue has at present. On that basis, the SST bill would be calculated.

The Convener: Have you taken account of the cost of issuing SST bills and of the fact that more bills per household would have to be issued?

Tommy Sheridan: The proposed system is different from council tax. You talk about issuing a bill that is a source of information for someone about what they are liable to pay. Under the SST system, the tax would be deducted at source. That is a strength rather than a weakness. What the payment was for would be flagged up on an individual's payslip. A saving would be made, because the massive administration that is involved in informing people of their bills would not be needed. I am sure that you have constituents who inform you that they have received three, four or five different council tax bills, such is the complexity of the various rebate systems.

The Convener: If we assumed for the sake of argument that people wished to be informed of their service tax liability, that could be done only through a bill to the individual, rather than through a recalculation of tax, which would be shown in the tax code, as you suggest.

Gordon Morgan: I envisage that the information that the Inland Revenue supplies when informing people of their tax code would include a form of

words that explained that a proportion of their tax liability related to the Scottish service tax. That would be included as extra explanatory notes in the normal process by which the Inland Revenue advises people of tax code changes when circumstances change.

The Convener: The Inland Revenue system is not designed for that purpose. Its system would require to be redesigned to achieve what you suggest. I presume that people might feel that they had a right to know what the tax would be spent on. The advantage of councils doing the billing themselves is that they can tell people not only how much they must pay, but what the resource will be spent on.

Tommy Sheridan: Such information would be part of the process of legislative change in Scotland. Once the service tax system was introduced, everyone in Scotland would know that the section of their income that was paid under the Scottish service tax was ring fenced for local government jobs and services. If somebody had a complaint about the delivery of local government jobs and services in their area, that would still be directed to the local authority in relation to the misuse of the money that it received, much as happens now in relation to the small proportion of local authority revenue that local authorities collect and for which they set the council tax level. I do not envisage a major problem of individuals not being aware of what the money is for, if that is what you are suggesting.

The Convener: The council tax is currently collected on a household basis. Effectively, people's water charges are collected through the same mechanism. That is a cost-effective mechanism, because it involves issuing one set of bills and offers significant savings. If water charges continue to be put out on a household basis—with the additional cost of that being borne either by local government or by the water authority—will not a significant proportion of the savings that you calculate be wiped out?

Tommy Sheridan: Not at all. I would have hoped that you and others would have welcomed the development that water and sewerage costs would be identified and billed individually. The current situation is unacceptable. Local authorities indicate that many of their council tax arrears are actually arrears for water and sewerage charges. There is a great deal of confusion. In Glasgow, people tell me that they cannot understand their arrears bill, because they do not pay council tax. I am sure that the same happens in your constituency. Many unemployed people do not realise that they are still liable for water and sewerage charges. It would be beneficial to Scotland for water and sewerage charges to be

identified individually, rather than milled together with council tax, as currently happens.

The Convener: That is a policy issue. I am interested in the financial implications. At present, a single set of bills covering water charges and council tax is issued. You are saying that significant savings are to be accrued from not issuing council tax bills. However, if a water bill has to be issued, some of the projected savings that you are indicating will fall elsewhere.

Tommy Sheridan: As you are aware, Scottish Water pays local authorities to carry out a billing exercise on its behalf. Under the service tax, Scottish Water will have to bill people separately. We do not know what the extra burden for Scottish Water would be. It would certainly not be great enough to tip the balance by adding significant costs.

Derek Brownlee: The service tax looks like a clever variant of a local income tax. However, one issue that is always raised when the Scottish variable rate is debated is the administrative costs of using the power and whether that is worth while, given the revenue that it would generate. Is your proposal not a little broader even than that? The bill would affect not just Scottish taxpayers subject to the variable rate but those who are domiciled or own heritable property in Scotland. Would that not mean that, in addition to the Inland Revenue maintaining information on whether someone was a Scottish taxpayer, it would need to maintain a list of people who were domiciled but not resident in Scotland and of people who were neither domiciled nor resident in Scotland but owned heritable property here? Would the bill not introduce additional costs in that respect?

Tommy Sheridan: We do not think that it would. We think that most of the information to which you refer is already in the possession of the Inland Revenue. When contracting to collect the tax, the Inland Revenue would have to do so on a UK-wide basis, because some tax offices may deal with Scottish workers who are employed to work down south or in Wales but who live in Scotland. There is no question but that there would be a UK-wide Inland Revenue contract. An instance of the type to which you refer would involve a UK resident—let us say someone called Mr Fayed—who has a huge landed estate in Scotland and currently pays a very small amount of council tax for it. Under the new system, Mr Fayed would be liable for service tax based on his UK declared income. The bill would be substantial, but I am sure that he could afford to pay it. That information is largely available. There is little or nothing in the bill that would require extra information that is not already in the public ambit to be found.

Derek Brownlee: Yes, but I am not sure whether the Inland Revenue routinely collects

information on domicile, which I understand is a concept that is relevant only to inheritance tax, although I may be wrong. It is clear that there will be additional costs if information is not on the system.

Getting rid of the need to maintain the council tax register of properties would be one benefit of abolishing council tax and moving to a classic local income tax. I can see why you have proposed what you have proposed, but requiring to maintain a council tax register in effect and the other information would surely lead to duplication and additional costs.

Tommy Sheridan: Gordon Morgan wants to comment on that. However, I assure you that the Inland Revenue regularly collects information on domicile. Indeed, one of the biggest gripes of many people is that non-domiciled status is often given to multimillionaire friends of the Government who then avoid paying tax in this country.

Gordon Morgan: I would like to make the same point. The taxpayer has an obligation to keep the Inland Revenue informed of their residence. Obviously, a lot of information comes from employers through the pay-as-you-earn system—which applies to around 71 per cent of people in the UK—so that information is with the Inland Revenue. The only question relates to the possibility of an additional burden on employers in having regularly to provide information under a scheme that is not unified at the Scottish level, with individual local authorities. However, we think that costs would be minimised under the proposed scheme. All the information that the Inland Revenue would require would be postcodes for where employees stay and information about where they work and whether they work in Scotland or England, which is information that employers already provide.

Derek Brownlee: There would, as always, be hard cases. Somebody who works in the oil industry and is based in the north-east is a classic example. They would work in the Scottish economy, sometimes in the UK economy and increasingly outwith the UK. Perhaps they would be less of an issue in the administration of UK income tax, but would there not be additional costs if a service tax were also administered?

Tommy Sheridan: If the person were resident for more than 90 days in Scotland—they do not have to be consecutive days—they would be liable for the tax. The majority of people to whom you are referring would be here for a minimum of 90 days.

Mr Arbuckle: The paper that the committee received from Gordon Morgan this morning seemed to suggest that writing off debts would cover the gap between the figures in the Scottish

Parliament information centre briefing and the figures that you have given. Will you tell us more about how the debt write-off would happen? You say that it seems uneconomic to collect debts after 10 years, although you admit in paragraph 9 of your paper that there is no justification for your figures.

Tommy Sheridan: I will briefly refer to the policy thrust behind the bill—Gordon Morgan can discuss the financial details. Our position is that pursuing debts that have been in existence in excess of a few years—never mind in excess of 10 years—is not only uneconomic, but with respect to the poll tax in particular, which was an unfair tax to begin with, immoral. The financial memorandum originally estimated a loss of revenue in the region of £100 million to £150 million and Gordon Morgan's subsequent work with the new Scottish local government statistics uprated the figures to between £140 million to £180 million. He has done most of the work on the matter.

12:45

Gordon Morgan: Paragraph 9 of the paper states that

“information is not available to prove or disprove”

the contention that “vanishingly small amounts” of poll tax debt are being recovered. The reasons why the information is not available are that, first, local authorities have largely subcontracted the work to sheriff officers and, secondly, detailed figures have not been published recently on local authority collection rates for poll tax debt, in the way that we get such figures for council tax debt. The whole thing is lumped into one sum of money. Sheriff officer costs are not broken down by any local authority.

Mr Arbuckle: I read that in your paper. I seek clarification. Are you suggesting that debt should be written off after a certain number of years or when it reaches a certain percentage?

Tommy Sheridan: The bill relates to debts up to 1 April 2004, depending on when it comes into force. We are looking at roughly a two-year cut-off for debts. We want to make a fresh start and move on, instead of having a continual clawback that takes up a lot of resources and often relies on unreliable information. The Scottish Executive may think that three or four years would be better than two years, but once you get beyond four years it is uneconomic and unacceptable to continue to pursue such debts.

Mr Arbuckle: How will that policy affect any payments that are due currently or before your tax is in place? People will say that they will not pay it, because the debt will be written off in three or four—or even two—years.

Tommy Sheridan: I am not sure that it would be as simple as that. The council tax collection rate has improved. As you can see from Audit Scotland's figures, there are still gaps, but the rate has improved. Collection systems are very much in place; there are direct debits and information on where people work and on people's bank accounts. If people are given notice over the next two years that, if they do not pay their council tax bill the debt may be written off, it would be difficult for them simply to avoid paying it, given the level of information that is already available to local authorities and the current level of and methods for collection. We do not envisage that being the problem that it would have been, for instance, if we had said at the start of 1993 that by 1995 any debt would be written off. Collection systems were not in place then, the council tax had not bedded down, local authorities did not have information on where people worked and so on. We do not envisage that being a big problem.

Mr Arbuckle: Finally, looking forward, have you made any allowance in the service tax for any write-off two or three years down the line because, as with all taxes, there will be a degree of avoidance or non-payment?

Tommy Sheridan: Given the clear evidence of the success of income tax compared with property tax, the level of non-payment will be acutely less than it is in relation to council tax. We talk in the memorandum about 1 per cent either way affecting the surplus that would be generated, to which we keep referring—the convener quite rightly keeps telling me not to talk about it because it is a policy question. It is clear that income taxes throughout the world, let alone in the UK, have collection rates of up to 99 per cent, compared with the collection rate for property tax, which in Scotland sits at around 92 per cent, but which for some local authorities is as low as 88 per cent.

Jim Mather: I am inclined to look at the potential unintended financial consequences. I worry about people migration. I worry about wealthy and skilled people who are mobile and about young couples who find that they need to be mobile. I also worry about the rise of the 90-day Scot—people who organise their lives so that they spend no more than 90 days a year in Scotland but who still manage to keep strong contacts with Scotland. Most of all, I worry about the impact of the tax on competitiveness and its cascading negative effect on Government finances. If investment decreases, if we lose skilled people and if business costs rise as a result of wage inflation, we could see an increased incidence of business failure and more businesses in Scotland being owned externally. Subsequently, staff could have much worse terms of employment. We could have fewer people in employment and more of them on lower rates of

pay. That would pose a real cash-flow problem for Government.

Tommy Sheridan: I would love to answer that question, but it deals with a policy area. I will answer the question if the convener does not mind.

The Convener: As the question was on policy—

Jim Mather: I linked my question back to numbers. It started with numbers and it finished with numbers. My question is about the effect on Government revenue, which is a fundamental issue in any financial memorandum.

The Convener: The question was not, strictly speaking, about the costings of the policy—

Tommy Sheridan: Please, please let me answer.

The Convener: To be fair, Jim Mather's question would be more appropriate in a policy context. I do not wish to curtail him, but he should ask the question in the Local Government and Transport Committee rather than the Finance Committee.

Elaine Murray has a question.

Dr Murray: I hope that my question will be counted as relating to the financial memorandum.

In the section of the memorandum headed "Costs on Other Bodies, Individuals and Businesses", paragraph 31 refers to a Scottish Parliament information centre estimate—which I have not seen—which suggests that 72 per cent of households would benefit from the SST. Given that nearly 20 per cent of households currently pay no council tax because they receive council tax benefit, do you calculate that a surplus would be generated by 8 per cent of the population?

Tommy Sheridan: No, the 72 per cent figure refers to those who are liable to pay council tax. As the SST would be a progressive tax, the first £10,000 would be tax free. Unfortunately, there are many citizens—47 per cent, according to the latest figures—who fall into the category of earning less than £10,000 per annum.

Progressive tax rates would then apply after the first £10,000. For those whose income is between £10,000 and £30,000 per annum, the rate would be 4.5 per cent. Therefore, even those who are on average incomes would stand to benefit from the SST by comparison with the average band D council tax charge. According to Inland Revenue figures, the largest number of taxpayers are located within that bracket: some 614,000 Scottish taxpayers earn less than £10,000 per annum; 580,000 earn between £10,000 and £15,000; 428,000 earn between £15,000 and £20,000; and 490,000 earn between £20,000 and £30,000. The

bulk of Scottish taxpayers are in the £10,000 to £30,000 bracket.

Dr Murray: So paragraph 31 should state that 72 per cent of council tax-paying households—not 72 per cent of all households—will benefit, given that many households pay no council tax.

Paragraph 29 contains a table showing those for whom the SST would, it is argued, be financially advantageous. However, 43 per cent of households in Scotland contain two or more adults, who may each have an income. For example, if a female firefighter lives with a male nurse, they would be £25 a week worse off than they are under the council tax—in Dumfries and Galloway, they would be £70 worse off—despite the fact that they are not on high salaries.

Tommy Sheridan: It is interesting that you use that statistic but, as you are probably aware, 47 per cent of households have only one earner. For the purposes of any research, it is acceptable to build in an assumption about one-earner households, given that they account for the largest percentage of households in Scotland.

You referred to the situation of a firefighter and a nurse who have a household income of more than £40,000 a year. You may or may not be aware of this, but only 10 per cent of households in Scotland have an income of more than £40,000 per annum, so that situation is very rare.

Dr Murray: I think that the correct figure is that less than 10 per cent of people in Scotland have a personal income of more than £40,000.

Tommy Sheridan: No, the figure refers to households.

The Convener: The problem is that you are comparing an individual tax with a household tax and making judgments based on your assumptions about households.

Gordon Morgan: I assure the committee that substantial research was carried out on that. We took the composition of households in relation to the number of people in the household, the number of taxpayers in the household and the council tax band and local authority area that the house was in. We then built up that information into an overall table that analyses the composition of all households throughout Scotland in each of those categories.

Based on the correlation of various statistics, 77 per cent of all households in Scotland would be better off, or, if they paid no council tax, would be no worse off, than they are now.

There was a band in the middle where the figures were indeterminate. It was not certain whether the 7 or 8 per cent of households that had two incomes in the mid-£20,000 range would be

worse off or better off, but 16 per cent of households would definitely pay more.

The research is not just based on single or double earners; we actually used the best available statistics and analysis to come to a determination of the number of households that would gain and those that would lose.

Dr Murray: Did you include the fact that people do not necessarily live in a band D house? Some might live in houses in lower bands; if they were on a lower income, they would benefit less.

Tommy Sheridan: I hope that your experience of research down the years would allow you to accept that assumptions have to be built into any research. Given that band D is the average council tax band in Scotland, it is reasonable to make that assumption. It is quite unrealistic to think that someone on an annual income of more than £40,000 per year would live in a band D house.

Dr Murray: I live in a band D house.

Tommy Sheridan: That is quite unusual for someone earning your level of income. I would expect you to live in a house in a higher band. When the domestic revaluation that COSLA is calling for is done, I am sure that your house will move into a higher band. However, that remains to be seen.

The household income figures are available in written answer S2W-19143 and show that less than 15 per cent of households have an income of more than £40,000. Therefore, 85 per cent of Scottish households do not fit into the scenario that you have just proposed. If I had built my research around a 15 per cent model, you would be asking me about the other 85 per cent.

Dr Murray: Do you believe that that 15 per cent can generate a surplus compared to what is generated by the council tax?

Tommy Sheridan: No; that is a misunderstanding. You are mixing up the surplus that will be generated under the bill with those who will save as a result of the bill. This is an individual tax, so the tax base will be larger than that of the council tax, even with the built-in exclusion of the first £10,000 per annum. A large amount of money will be generated because of the amount of people who will pay. However, those who will pay the most will be people such as you and me who are on very good incomes. Those who will pay the least will be those on average and below-average incomes.

13:00

Mark Ballard: I am a bit confused about the comparison between paragraph 24 of the financial memorandum and paragraph 143 of the policy

memorandum. Paragraph 24 of the financial memorandum estimates that the SST would in 2001-02 have raised £2.1 billion, compared to the council tax's £1.65 billion collection. The SST would therefore have generated a surplus of £505 million. In paragraph 143 of the policy memorandum, which looks at 2003-04 figures, CIPFA calculated that the total council tax to be collected by Scottish local authorities would be £1.83 billion compared to the SST's collection of £1.85 billion. Why are the figures so different? Why is there so much less of a gap between the figures in the policy memorandum, between which the difference is 0.79 per cent? The difference is something like 25 per cent in the financial memorandum.

Tommy Sheridan: Gordon Morgan will also respond to the question. There are two points to be made, the first of which is that we must be careful about the years that are compared. The last financial year for which the Inland Revenue has provided a detailed breakdown of income figures is 2002-03. On comparisons in respect of the generation of surplus, we must compare those 2002-03 figures with the council tax figures for 2002-03; we cannot compare apples with oranges by comparing figures from different financial years.

Secondly, the answer to the question was, I hope, partly answered in my initial comments about the level of surplus to be generated. The policy memorandum talks about a level of surplus being generated that would be based on six tax bands. When we drafted the bill, we included only five tax bands; we took out an 8 per cent tax band at the £20,000 to £30,000 income level, which reduces the level of surplus that would be generated. The Executive has corrected our figure, which is why we have used the £313 million figure.

Gordon Morgan: The error relating to the 8 per cent tax band is in paragraph 24 of the financial memorandum. I can provide corrections for those figures based on the revised figures from the Executive. The calculations in paragraphs 24 to 27 were based on that error—where the document reads “£505 million” it should read “£313 million”. We have notified the Local Government and Transport Committee of the Executive's change.

The Convener: It would be useful to have the correct figures as you see them, because we need such significant discrepancies in calculations to be resolved so that there is clarity.

Tommy Sheridan: There is not a problem—the Executive has provided the correct figure, with which we have no problem. The key thing is—as I said earlier—that the Executive is not questioning whether a surplus will be generated, but what its size will be. The Executive suggests that the surplus will be £313 million, rather than what we

had suggested, which was based on the omission of that 8 per cent tax band.

Mark Ballard: I am sorry if I am losing track of the various bits of paper. For clarification: in the policy memorandum at paragraph 143, line 5, the difference between the SST and council tax figures is £14.4 million. Why is the figure of £313 million ten times higher than the figure in the policy memorandum? I accept that I may have just got tied up in the wrong document, but there is a big gap between £14.4 million and £313 million.

Gordon Morgan: I think that that figure from the policy memorandum refers to something entirely different. The policy memorandum says that, given certain assumptions, the amount of money taken in council tax would be £1.8 billion. I think that the £14.4 million figure might be something to do with different years, but I would need to come back to you on that. I prepared for questions on the financial memorandum, but I had not even noticed that the policy memorandum figure was different. I can come back to you on that after the meeting, if that is okay.

Mark Ballard: That is fine.

The Convener: The financial memorandum indicates a yield of £1.649 billion from the council tax. However, the yield should include £285 million from rebate grants from the DWP. Therefore, the actual yield is £1.934 billion.

Gordon Morgan: My understanding is that the £1.649 billion includes £285 million from council tax rebate.

The Convener: That is not my understanding, which is that you need to add on the £285 million.

Tommy Sheridan: Again, convener, the Executive evidence that is before you makes it clear that the surplus that we have talked about—the yield—assumes the loss of council tax benefit. The £313 million surplus figure assumes the complete loss of council tax benefit. We do not accept that, of course; we would fight to retain all or part of it. If it was retained, the yield would be £313 million, plus £285 million.

The Convener: But your figure was about £500 million in the first instance.

Tommy Sheridan: But that £500 million would be almost £800 million, if it were assumed that council tax benefit would be retained. The £505 million is net of the loss of council tax benefit. All the figures assume that we lose council tax benefit. Politically, I do not accept that assumption. However, in the context of facing attacks on the robustness of our surplus figures, we felt that it would be better to assume that we did lose all the council tax benefit.

The Convener: The problem for the Finance Committee is that the figures involve very large sums of money. Before we can be confident about them, we need to be a bit clearer about which set of estimates is accurate. It is not helpful that there are different kinds of figures floating about, with discrepancies of £200 and £300 million between them. The committee must seek greater clarification of, and greater certainty about, the actual costs and the basis of comparison, so that everybody is clear, when the bill is debated in the chamber, about the basis of the difference between the systems.

Tommy Sheridan: Absolutely.

The Convener: Elaine Murray raised the issue of the difference between a tax on households and a tax on individuals. It strikes me that the assumptions that you make to arrive at a figure of 73 per cent of people benefiting from a service tax system are based on a fundamental statistical error in that you have not made like-for-like comparisons. Whether you can calculate what proportion of households would benefit from replacing the council tax with a service tax is a difficult question to answer. I would have thought that it is certainly not one that you can answer with a precise figure, given the evidence that you have at this point.

Tommy Sheridan: I invite you to seek evidence from the Scottish Parliament information centre on that, convener. SPICe supplied much of our evidence and it was very helpful in answering our questions. It is important to bear it in mind that when we have percentages for household income across Scotland, a figure for the number of individuals across Scotland and a breakdown of the make-up of households across Scotland, it is reasonable to build a model that allows us to make comparisons. You might say, for example, that we should have used band A or E instead of using band D; but we thought that using band D would be best because it is the average.

Some people say that the assumption of a one-earner household is unrealistic and that we should use the assumption of a two-earner household. However, if we use the assumption of £35,000 income for a two-earner household, we go from a £35,000 level of tax, which is high under the service tax, to a £17,500 level of tax for each earner, which is much lower under the service tax. In other words, the assumptions that we have used have not overestimated or overegged our pudding—if anything they have undermined it. SPICe will give you figures that show that if we assume one-earner households, the level of saving is in the region of 72 to 73 per cent and that if we assume two-earner households the saving goes up to more than 80 per cent.

The Convener: The point that I am making is that you are producing a figure based on a series of different assumptions.

Tommy Sheridan: Yes, but they are reasonable assumptions.

The Convener: I am not sure that they are. It is difficult to make such assumptions on the basis of the household pattern. There are issues about benefit payments, which are not incorporated in the SPICe assumptions. We would need much more robust analysis either to justify or to undermine your figures. Given how the figure was arrived at, I am nervous about accepting that it is robust enough.

Gordon Morgan: I have checked the answer to one of your earlier questions and I can now explain. In the consultation paper we refer to different years. The figure for council tax collection in 2001-02 is in paragraph 24 of the financial memorandum. That was the comparison year for the income tax received. You are correct that in 2004-05 the total figure moved up to nearer £1,900 million. It is confusing, because we do not say to which years all the figures relate, but I can provide a brief note on the figures and years so that you can identify exactly where the figures come from, particularly those in paragraphs 24 and 27, so that we are all singing from the same hymn sheet.

Dr Murray: You said that 47 per cent of people in Scotland live in one-adult households.

Tommy Sheridan: The figure is 46.9 per cent, rounded up to 47 per cent.

Dr Murray: If the calculations are made on the basis of who will benefit, should not the fact that all those people would be eligible for a 25 per cent council tax discount be taken into account?

Tommy Sheridan: It was taken into account in our calculations. We have not worked on the basis of simply assuming one-earner households; we have built into our model the fact that some households have more than one earner and that some have two or three earners—a very small proportion of households in Scotland have more than two earners, but some have. The figures are based on what we think are reasonable assumptions. The convener said that he does not think that the assumptions are reasonable. I would like to know what is unreasonable about them.

The Convener: It would be useful to get a list of the assumptions that have been made, and not just those in relation to the calculation of household benefit; the list of the assumptions made about the differences in yield between service tax and council tax would be helpful. Having information on the core assumptions on which the calculation is based would be helpful so

that it can be tested or at least inspected. They are the key financial elements, and we need to have absolute clarity on them. My point on the household issue is not that I have a better figure than you, but that, on the basis of the information that we have, I do not think that we can make a robust assumption about whether there is a benefit or not. It would be impossible to construct such an assumption—or it would be possible only after carrying out a substantial amount of extra research that was based on something other than aggregate figures.

13:15

Derek Brownlee: On a point of clarification, am I correct to assume that, with regard to the comparative figures for the amount that different occupations would pay under SST, the intention is not that someone who is self-employed will be worse off under the proposed system?

Tommy Sheridan: The amount that those people will pay will be based on their income. Many people wrongly assume that the self-employed are paid an awful lot more than they are; indeed, evidence shows that they tend to earn a less-than-average income. As a result, under SST, they will pay less than they pay under the council tax.

Derek Brownlee: So the intention is that a self-employed person who takes home £10,000 or £15,000 would pay the same as an employed person who earns the same amount.

Tommy Sheridan: Absolutely.

Derek Brownlee: However, given the bill's current definition of "relevant income", someone who is self-employed might well be taxed on their turnover. That is very different from being taxed on take-home pay.

Tommy Sheridan: People will be taxed on their relevant income—in other words, on what HM Revenue and Customs considers their relevant income to be.

Derek Brownlee: It would be nothing to do with what HM Revenue and Customs considers to be their relevant income. The bill says that "no account" will be

"taken of any ... deductions applied in respect of that income in order to determine the individual's actual liability for income tax".

I would have thought that, for self-employed people, one deduction might well be the cost of providing their services.

Tommy Sheridan: But section 3 defines the term "relevant income".

Derek Brownlee: Exactly; that is where I took my quotation from. Under section 3, income is

essentially the income that is liable for income tax, except that no account is taken of allowances—which I understand—or deductions. However, for a self-employed person, one deduction might be the cost of the services that they provide. For example, a general practitioner who is self-employed would deduct the cost of employees such as receptionists or whatever against their income tax. Under the definition set out in section 3, the GP's income would be significantly higher than the income on which he or she is liable to be charged income tax. That might be a drafting rather than a policy matter. I acknowledge what you have said about the bill's policy intent but, from my reading, the bill does something very different from what you have suggested.

Tommy Sheridan: The bill was drafted by Thompsons Solicitors, which took advice from HM Revenue and Customs, particularly on the issue of self-employed people. When we looked at the breakdown of income for self-employed employees, we found that they are clearly not living the life of Riley.

Derek Brownlee: Absolutely.

Tommy Sheridan: We understood that they would be taxed on the same basis by HM Revenue and Customs and that those types of allowances would be taken into consideration.

Derek Brownlee: I suggest that you clarify that matter, because it is fundamental to the bill's impact, particularly on small businesses.

The Convener: I think that that is a policy matter.

On behalf of the committee, I thank Tommy Sheridan and Gordon Morgan for attending the meeting. Under the current procedure, the committee will now agree a report, which will form part of the subject committee's consideration of the bill and its stage 1 report to Parliament.

Tommy Sheridan: What is your timescale for producing the report? We need to know the various deadlines for feeding relevant information into your deliberations.

Gordon Morgan: I have been taking note of the clarifications that the committee requires.

The Convener: Our timescale is fairly tight. We seek to agree our report on 8 November, which means that the draft will need to be completed by a week on Thursday. We will get in touch with you after the meeting.

Gordon Morgan: The points on which you seek clarification relate mainly to the years of comparison and the nature of the assumptions. We can provide that information before the end of the week, if that is acceptable.

The Convener: That would be very acceptable.

Management of Offenders etc (Scotland) Bill: Financial Memorandum

13:19

The Convener: If members can bear with us, I do not think that this item will take terribly long.

I welcome to the meeting Jane Richardson, the head of parole and life sentence review at the Scottish Executive Justice Department, who will answer members' questions on the financial memorandum to the Management of Offenders etc (Scotland) Bill and additional costs that might arise as a result of amendments agreed at stage 2. As members will recall, we agreed that, if a supplementary financial memorandum had to be produced for a bill, we would take evidence from Executive officials where possible and that, if we still had any concerns about costs, I would raise them on the committee's behalf during the stage 3 debate.

I apologise to Jane Richardson for keeping her waiting. I would have thought that the information that you have provided is relatively self-explanatory, but do you want to add anything to it?

Jane Richardson (Scottish Executive Justice Department): No. We hope that the minister's letter and the supplementary financial memorandum are as comprehensive and as helpful as possible. We have nothing to add to them.

The Convener: You have made no statement about the Scottish Prison Service. Are you assuming that the additional costs can be absorbed by the SPS's existing budget with no knock-on effects?

Jane Richardson: Yes.

The Convener: As there are no further questions, I thank Jane Richardson for coming along to give that brief response. I also thank members for their forbearance and for staying with the meeting. We will ensure that things are run more tightly next week.

Meeting closed at 13:21.

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