

# **LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE**

Wednesday 25 June 2008

Session 3

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## LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

20<sup>th</sup> Meeting 2008, Session 3

### CONVENER

\*Duncan McNeil (Greenock and Inverclyde) (Lab)

### DEPUTY CONVENER

\*Kenneth Gibson (Cunninghame North) (SNP)

### COMMITTEE MEMBERS

\*Alasdair Allan (Western Isles) (SNP)

\*Bob Doris (Glasgow) (SNP)

\*Patricia Ferguson (Glasgow Maryhill) (Lab)

\*Johann Lamont (Glasgow Pollok) (Lab)

\*David McLetchie (Edinburgh Pentlands) (Con)

\*Jim Tolson (Dunfermline West) (LD)

### COMMITTEE SUBSTITUTES

Robert Brown (Glasgow) (LD)

Rhoda Grant (Highlands and Islands) (Lab)

Tricia Marwick (Central Fife) (SNP)

Margaret Mitchell (Central Scotland) (Con)

\*attended

### THE FOLLOWING GAVE EVIDENCE:

Stephen Garland (Scottish Government Directorate for the Built Environment)

Don Peebles (Chartered Institute of Public Finance and Accountancy in Scotland)

Angela Scott (Chartered Institute of Public Finance and Accountancy in Scotland)

Stewart Stevenson (Minister for Transport, Infrastructure and Climate Change)

### CLERK TO THE COMMITTEE

Martin Verity

### SENIOR ASSISTANT CLERK

Jane-Claire Judson

### ASSISTANT CLERK

Ian Cowan

### LOCATION

Committee Room 2



## Scottish Parliament

### Local Government and Communities Committee

*Wednesday 25 June 2008*

[THE CONVENER *opened the meeting at 10:00*]

### Decisions on Taking Business in Private

**The Convener (Duncan McNeil):** Good morning and welcome to the 20<sup>th</sup> meeting of the Local Government and Communities Committee this year. I remind everyone to switch off their mobile phones and BlackBerrys.

Under agenda item 1, the committee is to consider whether to take items 5 and 6 in private. Item 5 is consideration of an approach paper on single outcome agreements, and such items are usually taken in private. Do I have the committee's agreement to take item 5 in private?

**Members** *indicated agreement.*

**The Convener:** Item 6 is consideration of applications from candidates who are interested in being appointed as a budget adviser to the committee. The committee's consideration of such matters is normally taken in private. Do I have the committee's agreement to take item 6 in private?

**Members** *indicated agreement.*

## Subordinate Legislation

**Strategic Development Planning Authority Designation (No 1) (Scotland) Order 2008 (SSI 2008/195)**

**Strategic Development Planning Authority Designation (No 2) (Scotland) Order 2008 (SSI 2008/196)**

**Strategic Development Planning Authority Designation (No 3) (Scotland) Order 2008 (SSI 2008/197)**

**Strategic Development Planning Authority Designation (No 4) (Scotland) Order 2008 (SSI 2008/198)**

10:01

**The Convener:** Under agenda item 2, the committee will continue its consideration of four negative instruments. Committee members will recall that we considered the orders on 11 June and agreed to hold an evidence-taking session with ministers and officials. I welcome Stewart Stevenson MSP, Minister for Transport, Infrastructure and Climate Change, and Stephen Hall, senior planner with the planning modernisation and co-ordination division of the Scottish Government directorate for the built environment. The minister has the opportunity to make some introductory remarks about the orders before I invite questions from members.

**The Minister for Transport, Infrastructure and Climate Change (Stewart Stevenson):** Thank you, convener. I know that your preference was for me to come to the committee last week. Although that was not impossible, it was very helpful that you allowed me to come this week instead. Thank you for your assistance with that.

I do not want to say much in the way of opening remarks. I suspect that members know which questions they want to ask me, so I will confine myself to saying that, in essence, we have continued with the policy and direction that the previous Administration set during the previous session and that we have not identified any particular reason to take a distinctive or different path on the issues that the orders cover. I will rest my remarks at that, if that suits you, and deal with the questions that I am sure the committee has for me.

**The Convener:** Thanks, minister—that is helpful. Jim Tolson has some questions.

**Jim Tolson (Dunfermline West) (LD):** Good morning, minister, and thank you very much for

coming along at relatively short notice. I appreciate that it is unusual for you to be asked along for a question session on negative instruments but, as I think you understand, I and other members have some real concerns, and we appreciate this opportunity to put some points to you. I thank Mr Hall for his briefing note, which I have seen. However—with all due respect—for some matters, it is better to put things on the record.

Minister, will you give us an outline of how the ministerial powers in the instruments will be used? What right of appeal or dissent will member local authorities have in respect of all or parts of their area being included in the city regions, both before and after they are set up? An authority might have a problem and feel that its inclusion is not in its best interests.

It seems clear that each local authority should be given equal weighting, and I would like to get confirmation on the record that that is the case. How was the decision on weighting that is described in the briefing paper arrived at?

I understand that a number of areas in Scotland are not included in the system. Will you confirm which areas are not included and why? What will be the effect of developing the strategic plans within the city regions? As you know, I have a great interest in the strategic plans for my local area, as I am sure other members have in their areas. What will be the key priorities for the city regions when they are set up?

**Stewart Stevenson:** That is an omnibus question. Forgive me if I have not noted it all down—I am happy to take a supplementary question if I appear to miss something material.

I think that your core question is about how a council that is a member of a planning authority will deal with a situation in which the authority wants to put forward a plan that is at odds with what the council wants to happen. That issue is at the heart of some of the concerns that people have expressed. The strategic development planning authorities are about providing a multi-council committee that enables councils in the city region areas to co-operate in mutual interest.

For example, it is clear that Fife Council has interests in the city regions of Dundee and Edinburgh. As someone who was brought up in Fife, I am familiar with the long-standing arguments for retaining Fife as an independent council—something that has been fought and won. Nothing in this legislation changes any of that.

If Fife Council found that the Edinburgh city region authority was putting forward something with which it disagreed, it could dissent. In essence, what is put forward must be put forward on the basis of consensus. If an individual council

is unable to be part of that consensus, it can put its own plans forward in its own right.

You posed the question of equal weighting. Each council that is a member of an authority will have the same number of representatives, to avoid the skewing that could take place if we were to weight the number of people who sit on an authority according to the size of councils. The mechanism is meant to allow councils to work together where there are common interests, and where the actions of one council will affect the interests of another across the boundary. In other words, it is an enabling mechanism—it does not bind councils to automatically accept the majority view. A single council can dissent and come out of the system.

You asked how many councils are outside the system. There are 20 inside, so the strict answer is that there are 12 outside. I say that that is the strict answer because—just for clarity—the two planning authorities that are also national parks are outside. The authorities will focus only on the narrow issues. The local plans and the development plans, and the relationships with Scottish Enterprise, remain councils' responsibility.

If Mr Tolson thinks that I have failed to address some of his omnibus question, he can ask again—I will write it down this time.

**Jim Tolson:** You have done very well in replying to the omnibus, minister. However, I seek clarification of one or two points.

Correct me if I am wrong, but I understand that Stirling is one of the 12 local authorities that are not included in the city regions. Many local authorities—in the Highlands and Islands and so on—are quite remote from our major cities and I understand why they would not be included, but why has somewhere such as Stirling, which sits between two of the major cities in Scotland, not been included?

You highlighted—quite rightly—the example of Fife, which is split between two city regions because of the business that it needs to carry on in those cities. If that is the case, why is Stirling not included? You mentioned how the right of appeal works, in that individual authorities that have a difference of opinion can put forward their own view, but the first question that I touched on was about ministerial power. I was trying to get at the issue of whether you would overrule or make a judgment in cases in which there is a split decision within a city region.

**Stewart Stevenson:** A split decision is not necessarily something that ministers would resist, because there would undoubtedly be a reason for there being a split decision. Of course, I cannot give an absolute commitment that the minister who has the powers to take a view on any plans

that are submitted to him or her would not overrule what is put in front of them, because the powers are there for a purpose, but I think that you cannot force consensus. If a vital interest of a particular council is not reflected in the majority report, the minister would be pretty unwise not to take account of that in any decisions that are made. I am not giving an absolute guarantee, not least because I cannot bind any successors of mine—if there are any; I might be in office forever, who knows?

The powers are there, but I think that a minister would be unwise to overrule anyone.

By the way, I do not regard Fife as being split in any way by any of this; Fife is represented in the area to the north and the area to the south because it has interests in both areas. I know that I am being very picky, of course.

Stirling is in a geographically interesting position. I would argue that it is probably the paramount transport hub of Scotland, as virtually everything goes through Stirling—goods are drawn to Glasgow, Edinburgh, Perth, Dundee and so on, although perhaps not to Aberdeen. Stirling Council's area is quite diverse, containing the town itself as well as huge rural areas a considerable distance to the north. The current situation with regard to Stirling is the result of a judgment call backed up by its not wishing to be part of the process. Of course, nothing in what we are doing stops any council collaborating with any other council on issues of mutual interest. I imagine that Stirling will opt in to discussions and respond to consultations. However, it will not be sitting at the top table with a vote.

**David McLetchie (Edinburgh Pentlands) (Con):** As I understand the regulations, the strategic development planning authority has to prepare and keep under review a strategic development plan for a strategic development plan area. Who defines that area? Is that prescribed by ministers in further instruments or does the planning authority define its own plan area?

**Stewart Stevenson:** In the first instance, the area will be proposed by the grouping itself, and need not necessarily include all of the areas of councils who are part of the authority.

I will illustrate the point using an issue that I know you are particularly interested in. If Scottish Borders Council were to say that it did not wish the southern part of its area to be included, that option could be accepted by ministers. However, I take no position about what will actually happen, because that is a matter for another day.

**David McLetchie:** The issue is also germane to Mr Tolson's points. Presumably, in Fife, which will be involved in two city regions, the strategic development plan area will be split—there will be a

northern bit that will fall within the ambit of Dundee and a southern bit that will fall within the ambit of Edinburgh. That means that there will be a planning split in Fife, by reference to the definition of the strategic development plan areas.

**Stewart Stevenson:** That would be Fife's choice. I would expect Fife's position to be the paramount factor when such decisions are made. I am only hypothesising, but it would not be impossible for Fife to conclude, for example, that it will leave Kirkcaldy unallocated but include Dalgety Bay in Edinburgh's sphere of influence. By the same token, Fife might decide that St Andrew's and Cupar should be part of the Dundee area, but Glenrothes should not be. In effect, Fife could be in three parts—an Edinburgh part, a Dundee part and a part that is neither Edinburgh nor Dundee. However, I would expect the views of Fife Council to be absolutely paramount in coming to any such conclusions.

**David McLetchie:** Just to be clear: who decides that? Is it Fife Council, the minister or the two planning bodies?

10:15

**Stewart Stevenson:** The recommendation has to come from the authority to the minister—

**David McLetchie:** The planning authority—the joint body?

**Stewart Stevenson:** Correct, but the member should recall what I said about the need for consensus and what happens if it is absent. There is a willingness among councils to work together—they recognise, for example, that decisions made in Edinburgh and Dundee affect the towns in Fife.

I do not necessarily expect major difficulties, although you are entitled and right to ask me about the mechanical process. The authority would make a recommendation to ministers and, unless there was a clear reason for the minister to believe that the recommendation was irrational, I would expect them to endorse it because it would reflect the co-operation and collaboration that we seek through the single planning authority.

**David McLetchie:** We can contrast Fife with the Borders. In Fife, the process starts with an assumption that Fife will be split between two plan areas because it is affected by two cities. As the briefing prepared by Mr Hall rightly pointed out and as everyone would accept, the northern part of the Scottish Borders is in the ambit of the greater Edinburgh economic zone, which also affects other authorities. However, as we identified earlier, that approach might not necessarily meet the needs of people in the southern part of the Borders.

Who would decide whether to split the Borders in developing the Edinburgh plan area? Would that decision be made solely by the Scottish Borders Council, saying that it is appropriate for only the northern part of its area to be included in the Edinburgh city region, or would the decision not be wholly within that council's control?

**Stewart Stevenson:** I will repeat it: formally, the decision is the minister's. However, the recommendation is made by the planning authority to the minister, and it has to be a consensus position. Scottish Borders Council supports the orders, although I understand that there are other opinions in the Borders. If the council has a view of which fence post marks the border between the parts of the Borders that are in and out of the Edinburgh region, it would hardly be sensible for the minister to second-guess the local decision making. The thrust of the Government's approach to and its relationship with local authorities is to respect their rights to take decisions at the most local level.

Equally, there will be huge value to Scottish Borders Council in sitting inside the tent, ensuring that its two members—the same number as the City of Edinburgh Council will have—represent its interests at the top table. If a consensus does not ultimately exist, a council can submit its plans separately.

It would be better for any council to be involved, engaged and inside the tent, even if representing only a proportion of its area, which is not for me to second-guess—

**David McLetchie:** But it is ultimately for you to decide.

**Stewart Stevenson:** Correct. Somebody has to decide.

**David McLetchie:** I understand that.

**Stewart Stevenson:** I will be accountable for the decisions that I make, and my approach will be to seek reasons to agree rather than disagree with the authorities. I expect to be in that position because the point of the process is collaboration and co-operation among councils on their mutual interests. If we do not achieve that, a range of other issues will emerge.

**David McLetchie:** We are talking about strategic planning with particular reference to the Borders, which is—self-evidently—on the border between Scotland and England. To what extent does the Scottish Government encourage or promote collaboration between Scottish Borders Council—Dumfries and Galloway Council is obviously in the same position—and the neighbouring authorities in Northumbria and Cumbria? Berwick-upon-Tweed and Carlisle are important economic centres for many people who

live in the Scottish Borders. To what extent is such collaboration covered in strategic overviews?

**Stewart Stevenson:** It is not covered in a legal and formal sense. It is clear that we cannot extend the boundary of our strategic authority to include Newcastle, for example, or Wooler, which is just over the border, but Scottish Borders Council can co-operate across the border—indeed, I strongly encourage it to do so. The Government has discussions on a range of issues with economic development people in the Newcastle and Carlisle areas, and bodies on both sides of the border are willing to co-operate in practice. They recognise that the border is an administrative border—it is not a physical Berlin wall that stops co-operation, and it must never become that.

**David McLetchie:** Finally, one would like to see east-west collaboration between Scottish Borders Council and Dumfries and Galloway Council on planning and development proposals in several areas—tourism and certain aspects of transport in particular—because they cover neighbouring areas. Can you confirm that, from the Government's standpoint, the inclusion of the Borders in the strategic planning zone that it is in does not preclude the development of planning relationships between Scottish Borders Council—I am referring in particular to the southern Borders—and Dumfries and Galloway Council?

**Stewart Stevenson:** I absolutely confirm that.

**The Convener:** I have a couple of general questions, minister.

From my discussions over the past couple of weeks with people who are interested in planning—councillors, planners and so on—and from reading the Scottish Government's latest newsletter, I believe that there are issues, which have been reflected this morning and which I think have been recognised, to do with central belt domination of the process. People in the Borders have raised issues with me that I do not necessarily know enough about or accept, but people are concerned that they could become involved in something that is not necessarily in their best interests and that the Borders will be used to solve Edinburgh's housing problems, which would not necessarily be in their interests. We are at the implementation stage, and the capacity continually to develop and update the plans through having enough resources and planners in the system has been raised with me. What are you doing to reassure people—as you have attempted to do this morning—that they will be given the opportunity to become involved in the process? How can people be reassured that they will have a real chance of influencing the wider planning process? What consideration is being given to workforce planning issues to bring about the changes that we would want?



**Stewart Stevenson:** Your questions are helpful, as they neatly encapsulate several issues that I have been made aware of.

I come from a rural area some distance from Edinburgh and know that central belt domination is an issue for people in rural areas. On Scottish Borders Council in particular, I have said that if it thinks that it needs to put forward separately something different to a minister, that option is available. Moreover, the council will play a key part in coming to a conclusion about which parts of the Borders should properly be part of the authority. I hope that that reassures the committee.

By having representatives sitting at the top table, those in the Scottish Borders Council area will have a greater chance of being better represented in the decision-making process than would be the case if the council sat outside the authority submitting consultation responses like any other consultee. I hope that the council sees the advantages of having two members at the top table in the same way that Edinburgh and the other councils have and accepts my reassurances that if it feels that its interests are not represented by what is otherwise the consensus view, it will have its own opportunity to put something into the system. I hope that people will read those remarks and take some sense from them.

In response to your concern that the Borders will be used to solve Edinburgh's housing problems, I have to say that that could happen regardless of this activity. The Borders is a very attractive area, which is perhaps underperforming economically and probably has lower average wage levels than any mainland area outside the islands. Because of its adjacency to Edinburgh, in particular, it presents opportunities that are already being exploited by the substantial number of people who live in the Borders and commute to the city. By improving transport links—in particular, the Waverley line—and creating opportunities for businesses to relocate to the rural setting of the Borders, we will be able to get professional people not only working in small businesses in the area but, through good communication links, moving there to live. It is clear that a number of things that are happening in the Borders are important to strategic planning and are creating opportunities for the area.

I recognise that not everyone who lives in the Borders wants the area to change according to what I think is the majority view, as expressed by Scottish Borders Council. However, that tension should continue to be managed by the council. It will be able to seek ministerial help on that matter if it thinks that that would be useful but, at the end of the day, the structure and the future of the Borders are predominantly in the council's own

hands, and the signs are clear that it is engaging effectively in that work.

As for your other question, the issue of capacity, especially with regard to planners, is absolutely crucial for the whole planning system in Scotland, although I acknowledge that the issue is likely to affect the Borders in particular. The system itself has to deal with the fact that planning departments across Scotland have huge numbers of vacancies. The Government is already engaging with the Royal Town Planning Institute and is beginning to engage with the schools that train planners to find a long-term solution to the problem. The genuine difficulty is that there are not many unemployed planners out there waiting to fill these local authority vacancies; many of them have moved to the private sector because they can earn more money and because they have more scope to innovate.

One of the long-term benefits of the changed relationship between central Government and local government is that, because central Government will not be able to dictate things or attempt to micromanage as much in local government, there will be more scope for innovation in local authorities. I think that, some years from now, we will see reinvigorated local government, with people at official level able to make bigger and better contributions. I am not trying to open up a broad front of political argument on this issue; I am simply highlighting one of the consequences of the approach that we are taking.

Will this move create an extra burden on planners in the Borders that will diminish their ability to do the job on the ground? I do not think so, because it is about joining resources in the different authorities and jointly developing strategic plans that would otherwise be developed individually by planning departments in each of the councils. I cannot absolutely say that that will be the outcome, but it can certainly be delivered with good will and as part of an effective approach by all involved.

I hope that if councils feel differently about that, they will ensure that I know about it so that I can take the opportunity to assist, if I can.

10:30

**The Convener:** As well as working with the various institutes, colleges and universities to address the workforce planning issue, how many planners do you believe we can recruit and retain over time? You will be aware that the system contains a number of planners of a certain age who have seen new planning legislation in the past, and who might take the cynical view, "Here we go again. We've heard it all before." However,

those planners are really crucial to making the changes that we all wish to see in the planning system. I recently heard some evidence on that—I think it might have been from the chief planner, who brought in some surveys of the attitudes of planners in local government. There is an issue there to be addressed and I would like to hear what you have to say about it.

Also, are there any plans to acknowledge that planners in the private sector could play a part in providing capacity in the short term, and, indeed, the long term?

**Stewart Stevenson:** Cynicism is standard when change happens, whether in the private or public sector. When changes are made, it is important that local authorities, like private businesses, ensure that an identifiable person is there to facilitate the changes that are being made.

There is a real energy in local government planning. The Cabinet Secretary for Finance and Sustainable Growth and I recently met planners, chief officials and politicians who are involved in the planning process and they showed broad support for the Planning etc (Scotland) Act 2006 that the previous Administration put through, with cross-party support. We are speaking about changes on which there has been broad consensus. The planning authorities were debated vigorously in the previous session. Donald Gorrie, David McLetchie and some other members had issues with them but, at the end of the day, the Parliament broadly agreed to pass the Planning etc (Scotland) Bill.

You also asked me about planners in the private sector. The private sector needs to raise its game in relation to planning applications. When we examine complaints that a council is not making decisions as quickly as it should, or that a non-departmental public body is not making its contribution to the decision-making process, we discover that the applicant has not done all the necessary work within the necessary timescale. In working with the private sector, we want to be sure that it raises its game, that the quality of applications is better and that fewer applications do not give enough information at the outset to enable the planners to help the applicant to move the project forward.

Local authority planning has issues, but there are also issues for planners and developers in the private sector, and we are working to improve that situation.

**The Convener:** As there are no other questions, I propose to close this session. I thank the minister and Stephen Hall for their attendance and for answering the committee's questions. Thank you, minister.

Do members agree that the committee has nothing to report to Parliament on the instruments?

**Members indicated agreement.**

**The Convener:** Thank you. We will pause to allow the witnesses to change before moving on to agenda item 3.

## Housing (Review of Scottish Planning Policy 3)

10:35

**The Convener:** Agenda item 3 is consideration of evidence from the Minister for Transport, Infrastructure and Climate Change, which arises from our evidence session of 23 April on Scottish planning policy 3, "Planning for Housing". The minister is accompanied by Scottish Government officials Stephen Garland, who is from the planning modernisation and co-ordination division, and Aidan Grisewood, who is head of the communities analytical services division. I welcome them and invite the minister to make introductory remarks on SPP 3.

**Stewart Stevenson:** Thank you for giving me the opportunity to discuss the review of SPP 3 with the committee. My officials have given evidence to the committee on the issue and I hope that my presence will further assist your thinking.

I will not give a full explanation of SPP 3; you have probably had such an explanation. However, it would be helpful if I identified key issues that underlie the review of the policy. SPP 3 is a policy for housing. Its publication in 2003 had a positive effect in setting out the process of planning for housing and the factors that should be taken into account during that process. However, there have been indications that the approach has not resulted in increased provision of land, as was intended.

We know that Scotland's housing system has not responded to demand in recent years and we are aware of a range of perceived obstacles to the building of new houses, of which the availability of effective land is but one. Availability of land is a major factor and by reviewing SPP 3 we seek to ensure an ample supply of land on which to build the right houses in the right locations.

There are several aspects to achieving that aim, the first of which is the interface between the different tools that local authorities can use to assess housing need and housing demand and allocate sufficient land for houses to be built. We are keen to encourage greater consistency and accuracy in the use of such tools. We are publishing a suite of documents for that purpose, such as local housing strategy guidance and housing need and demand assessment guidance, as well as guidance on housing land audits, which is in the revised SPP 3. Taken together, the new guidance should provide more certainty that enough land is allocated to build the required houses.

On top of that, the revised SPP 3 encourages local authorities to make generous allocations of land for housing, over and above the identified requirement. Such an approach should mean that effective land for housing will always be available and it should safeguard against inevitable but unpredictable constraints that slow or prevent development on particular sites.

In conjunction with those elements, we are encouraging local authorities to be more aspirational about their housing provision and to move beyond a simple arithmetic notion of housing need to include their vision for the housing market in their area.

Of course, we are well aware of changes in the housing market that have taken place recently and continue to take place. The affordability and availability of mortgages have been reduced and the confidence of the building industry has been affected. We are engaging with the industry to assess a developing situation. However, the demand for housing will remain constant over the longer term and continues to be pressing.

As the minister responsible for planning, I am clear about the fact that we need to continue to address the issues underlying the provision of new housing; the revised SPP 3 is an important mechanism for doing that. More accurate and reliable allocation of land for housing through the planning system is a key factor in increasing housing supply. In turn, that should have a positive effect on choice and affordability. I realise that the provision of more land is not the only element in achieving more housing completions, but it is one of the fundamental elements that we need to put in place. The revised SPP 3 should enable the planning system to play a key role in the delivery of housing. I will be happy to answer members' questions.

**Johann Lamont (Glasgow Pollok) (Lab):** I want to focus on two issues. First, you said that the key role of SPP 3 is to tackle obstacles to developing housing. Given that that is precisely the role of the housing supply task force, why was the task force not consulted on the draft revised SPP 3?

**Stewart Stevenson:** There are differences between the purposes of the task force and of the revised SPP 3. The task force looks at a much broader picture of housing issues, whereas we set policy for planning. There is significant crossover between the membership of the task force and the stakeholder group that advised on the revision of SPP 3. For that reason, the revised SPP 3 reflects the work of the task force. By moving ahead in parallel, we are able to accelerate what is happening.

**Johann Lamont:** That is a bit odd, given that previously we were told that the role of the housing supply task force was narrower than that of SPP 3. You may remember that the establishment of the task force was announced with bells and whistles, but since then it has been virtually silent. One might have expected not that there would be crossover between the task force and the stakeholder group or that they would operate in parallel, but that there would be joined-up thinking on issues such as land supply, housing planning and the delivery of affordable housing policy.

**Stewart Stevenson:** I suggest that there has been joined-up thinking. The aspiration for 35,000 houses a year that comes from housing policy is clearly reflected in planning. I invite Stephen Garland to make some additional comments.

**Stephen Garland (Scottish Government Directorate for the Built Environment):** This iteration of SPP 3 places strong emphasis on the delivery of housing. That reflects much of the discussion that has taken place in the housing supply task force and with its members.

**Johann Lamont:** It would be useful if you could indicate which parts of the document were influenced by the task force. I am concerned that the work of the task force and the revision of SPP 3 have been separated.

The second issue on which I want to focus is the changing context. The minister mentioned that the housing sector is changing and that there are huge challenges. Have you met anyone in the private housing sector who thinks that you can meet the target of providing 35,000 houses each year? I have met no one in the private sector or the public sector who believes that that is achievable in the current circumstances. Private house builders have suggested that support may need to be delivered through the housing association sector, by encouraging housing associations as an anchor at a time of challenges. We have been told that the requirement for 25 per cent of housing to be affordable will not be delivered because developments are stalling, being frozen and being stopped. What discussions need to take place to reflect the changing housing context? We may need to take a step back from the approach that was outlined in "Firm Foundations: The Future of Housing in Scotland".

10:45

**Stewart Stevenson:** This afternoon, the Deputy First Minister will make a statement on housing to Parliament—I would be in some difficulty if I pre-empted that. My role is to ensure that the planning issues that affect our ability to build the appropriate number of houses are resolved—what we are doing relates to those issues.

Ms Lamont correctly made reference to the current circumstances and the very real difficulties that exist. I do not think that we are necessarily planning for those circumstances to continue for a huge length of time, but we do not know how long they will continue. That remains to be seen. We certainly hope that 11 Downing Street gets a hold of the economic difficulties that exist at present and puts in place appropriate responses.

The role of planning is to ensure that we are ready for a future that is different from the present difficulties that we are experiencing. In particular, we might be able to make a positive contribution by increasing the amount of land that is designated for housing development. It is largely the ratio between the amount of housing development that goes on, which we accept is reducing, and the availability of land that drives the cost of building houses. We will deliver an increase in land supply because we are looking to the long term. If we increase the supply of land at a point of diminished demand for it, that is potentially a positive contribution to containing and managing the cost of building new houses today and in the immediate short term.

The short-term difficulties, which are not within my brief as planning minister but exist more generally, give us the opportunity in planning to create the long-term future that we need. With some of the problems, we cannot simply look one or two years ahead. We must look a great deal further ahead than that, and that is what we are trying to do in the planning system.

**Johann Lamont:** There is a requirement for 25 per cent of housing developments to be affordable housing. How is that being monitored and how will it change? There are concerns that the requirement is not effective. Given that house builders in the private sector are telling us that they are not undertaking developments, how will the gap be met? At the same time, we are not addressing the housing associations' concerns that they will be forced to borrow more.

**Stewart Stevenson:** If I may say so, that is not essentially a planning issue for me to comment on. I am sure that the subject will be covered this afternoon, if not in the substantive statement then in the questions that you and others will ask the Deputy First Minister, who is responsible for housing.

**Johann Lamont:** I asked how the 25 per cent requirement is being monitored, given that there are concerns about its effectiveness.

**Stephen Garland:** As I said the last time that I came to the committee, new processes have been put in place to monitor the implementation of affordable housing policies. The first report was at the end of April, and the early indications are that

a number of authorities have policies in place and are beginning to deliver in relation to the quotas that are required. However, it is early days for the quota system in affordable housing policy and we will continue to keep it under review. Obviously, in the current circumstances, we need to reflect on the matter.

**Johann Lamont:** I emphasise the urgency of the matter. It is critical that those who are responsible for planning and housing speak to one another about it. My impression from speaking to those in the private sector is that things have moved quickly and there needs to be a commensurate response from the Government on how it can address the situation.

**Stephen Garland:** A significant number of meetings have been held about the issue, between officials and at ministerial level. As the minister noted, the situation is developing at quite a pace, so we are looking to assess it.

**Stewart Stevenson:** It might be useful to make the rather obvious comment that Mr Maxwell and I are in adjacent offices. You can be assured that we keep each other fully briefed on the subject.

**The Convener:** The minister commented that there might be a silver lining in the dark economic cloud that is above us, because land might become available at a lower cost. As I recall, Shelter said that there might be a positive in that regard, although the point was not made as positively by the other witnesses at the same meeting. What work has been done to assess the likely impact of more land being available and the opportunities that you describe? Do developers not plan their developments over a longer period? Would they not simply sit on such land? There will be land banks throughout the country, and some derelict and other sites might not be developed. What plans do you have to ensure that that will not be the case?

**Stewart Stevenson:** You make some appropriate points, convener. I would not wish to overegg the pudding by using such phrases as "silver lining", but we can make our contribution through the planning system by relieving some of the constraints on housing development. That does not mean that land that is designated for housing ends up in developers' land banks; neither does it mean that developers move ahead with developments. However, it addresses a frequently cited inhibition on housing development, which is that there is inadequate designation of land. In the complex set of relationships between the private sector, the economic environment and the planning system, it is important to continue to relieve the constraints that planning might put on housing development, and—without using the phrase "silver lining"—that might just bring benefit and opportunity.

There is some evidence that councils have not made sufficient overprovision in the past, by means of designation, to provide flexibility to builders who seek to acquire land upon which to build. As we continue with an aspiration of 35,000 houses a year, with designations that fit with that, the cushion is likely to become much greater. Hence, the constraint could become much less significant for some time to come. In effect, there might be little constraint at all. That would be an ideal outcome if that is what is delivered.

**Jim Tolson:** I seek information about houses in multiple occupation and the revised SPP 3. There are great concerns, some of which I share, that young people in particular are being demonised by the potential changes in Government policy, including those that concern HMOs. Judging from my background knowledge, the vast majority of HMOs work quite well under the existing planning process. Why does there need to be a change in the controls that apply to HMOs?

Why is the current legislation on antisocial behaviour deemed to be insufficient to deal with antisocial HMO tenants? How do you respond to concerns that having additional HMOs might lead to increased rents, more illegal HMOs and increased difficulty for poor students in accessing higher education?

**Stewart Stevenson:** Forgive me for the pause in answering—I like to write down the questions, especially when they are from Mr Tolson.

I have met a number of people with interests in this area. I met the head of the National Union of Students to discuss the concerns that have been expressed from his sector. We came to an agreement that, primarily, the HMO legislation provides a legislative framework to protect people who live in houses in multiple occupation. That is not a planning issue as such. The draft SPP 3 that we issued referred to HMOs, and we have taken account of what has been said by a range of people.

We have met colleagues who are responsible for HMO policy and practice. We are going to detach that from the SPP 3 draft, because we think that its being there is inappropriate and has led to some unhelpful conclusions. I have also met representatives of communities—not just students, to be clear—in which people perceive that there are difficulties with the concentration of HMOs. I understand the tension that exists in that regard.

Reference has been made to illegal HMOs. The fines have just been increased from £5,000 to £20,000, and the basis on which they can be levied will change. We hope that there will be greater enforcement with regard to illegal HMOs. The planning system has a pretty limited role to play, because it relates only to situations in which

there is a change of use. In many cases, a place moves from being used for one purpose to being an HMO without there being a change of use.

The key instrument for dealing with HMOs is supervision, rather than the planning system. Councils such as Glasgow City Council have policies that they seek to apply to strike the right balance between ensuring that HMOs are available for a wide range of people—students, migrant workers and young professionals—and that the character of communities is maintained.

Different councils take different views. The needs of Glasgow and Edinburgh are quite different from the needs of the Highland Council area, in which HMOs house migrant agricultural workers, or of my constituency, in which HMOs house migrant workers who work in primary food processing. There are different requirements in different areas, and we want to avoid using planning as the instrument of changing what happens with regard to HMOs.

Reference has been made to antisocial behaviour. It is important that we have all the legislative instruments to deal with people's behaviour, whether they live in HMOs, in their own house or in rented accommodation. We should not focus only on HMOs: there are people who behave in an antisocial way living in all types of tenure. Dealing with people's behaviour is not a planning issue, nor is it to do with certain kinds of people. It is an issue for elsewhere.

**The Convener:** I have a list of members who wish to ask questions, but I will also take supplementaries. Bob Doris and Patricia Ferguson have questions on HMOs. I will take Patricia Ferguson first, to be followed by Bob Doris.

**Patricia Ferguson (Glasgow Maryhill) (Lab):** I am afraid that I do not share Mr Tolson's sanguine view of HMOs. The legislation on HMOs is, quite rightly, designed to protect those who live in them—two tragic fatalities in my constituency a number of years ago helped to spark that argument—but my concern is that the legislation does not afford protection to those who live adjacent to an HMO.

You talked about detaching HMO policy from the current planning policy. Can you clarify what you meant by that—are we to presume that the reference to HMOs will be taken from SPP 3 and put somewhere else?

**Stewart Stevenson:** Yes. We intend to take any comments that are made on that and to deal with it through a revision of planning circular 4/2004, "Houses in Multiple Occupation: Guidance on the interface between planning control and licensing". We do not intend to deal with HMO policy within the context of SPP 3.

**Patricia Ferguson:** What would the effect of that be? I am all for there being a greater interface between the licensing of the HMO and the agreement to an HMO existing or qualifying to become one. In my experience, it is the gap between the two that most often causes the problem. I would be grateful if you could clarify exactly what is meant.

11:00

**Stewart Stevenson:** By moving the policy on HMOs to a planning circular, we are addressing the bridging of that gap. Stephen Garland will make some detailed comments.

**Stephen Garland:** The consultation set out the proposal to detach the annex on HMOs from the revised SPP 3 as a means of taking forward this important issue. Many responses to the consultation commented that the guidance on HMOs did not sit well as an annex to SPP 3. However, as you noted, it is still necessary to have guidance on this issue. We will detach the annex in the revised SPP 3, but we will also publish separate guidance that picks up on issues that were set out in the draft SPP 3. As we have discussed, in planning terms the issue is about concentrations of HMOs and authorities striking a balance between providing enough of the right type of housing, reflecting the need for HMOs, and dealing with concentrations of such properties in particular areas. We propose not to force authorities to take a particular policy on concentrations, but to ask them to consider whether such a policy would be appropriate in their area. The approach very much works alongside the licensing regime, which is, after all, about ensuring that standards are maintained.

**Patricia Ferguson:** I am not sure that that is helpful. Surely if this is all part of the planning system it should be dealt with under planning guidance.

**Stephen Garland:** It will be dealt with in a planning circular.

**Patricia Ferguson:** I am sorry; I took your comments to mean that it would be dealt with on the HMO licensing side of things rather than on the planning side.

**Stephen Garland:** No. There will be a planning circular on the interaction between the planning system and the HMO licensing system.

**Patricia Ferguson:** But if I understand you correctly, the decision on the appropriate number of HMOs in a particular area will be one that local authorities can make if they wish to do so, instead of one that they are required to make.

**Stephen Garland:** Local authorities have always had that ability, and we are not seeking to

change that. We are simply encouraging them to consider whether a policy is appropriate.

**Patricia Ferguson:** Has that change been made as a result of lobbying on the issue and the responses to the consultation?

**Stewart Stevenson:** We have—I believe, rightly—taken account of what happened in the consultation and of points that were raised in a useful meeting that I had with Pauline McNeill, in whose constituency a range of HMO issues has arisen, and some of her constituents. We want to ensure that planning does what it needs to do with regard to HMOs but that that activity is properly linked to the licensing regime.

For example, one historical issue that has arisen is whether the planning status for all the HMOs for which licences have been granted actually allows them to be HMOs. I do not know whether we have the numbers to hand—they can certainly be provided—but in Glasgow the number of retrospective changes in planning status made to regularise the position because an HMO has been in existence for 10 years has exceeded the number of HMO enforcements. I am looking to my colleagues for confirmation of that, but I think that someone else might have that information. In any case, there is certainly a mismatch in that respect.

The issue of ensuring that the planning status of a building for which an HMO licence has been granted is appropriate has not been adequately picked up on the licensing system's radar, and we want to join the dots in such cases. Certainly, my meeting with Pauline McNeill was very useful in teasing out that particular difficulty, which touches on the planning system but is primarily to do with the licensing system, and we want to address the question whether the systems can work together better to deal with it.

The consultation and meetings with people have been particularly useful in helping us to understand what the practical difficulties are at the grass-roots level and how we can help local authorities to strike the right balance between the need to provide HMO accommodation and the needs of residents and businesses in a particular area, who have rights as well.

**Patricia Ferguson:** How do you see a local authority enforcing any quota that it might come up with?

**Stewart Stevenson:** A local authority can set its own rules for that, as Glasgow does. We do not plan to change that. There is a broader issue about enforcement, which we will continue to talk about.

**Patricia Ferguson:** Are you confident that the current approach works?

**Stewart Stevenson:** I am confident that it can be improved.

**Patricia Ferguson:** Do you believe that the measures that you are taking will improve it?

**Stewart Stevenson:** We have yet to publish the updated planning circular, but we would expect that to contain the appropriate guidance that will help local authorities. I am happy to continue to work with individual members and local authorities on a process that is about striking a balance and ensuring that there is a strong local input that adequately reflects local needs and circumstances. A minister would be unwise to second guess what happens in areas that are often relatively constrained, within cities. In such areas, the local authorities are best placed to decide what the right balance is.

**Patricia Ferguson:** I offer Mr Stevenson an opportunity to visit some of my constituents who would like to discuss some of the issues with him. I would be happy to arrange that visit.

**Stewart Stevenson:** I was happy to meet some of Pauline McNeill's constituents to discuss the matter. If a meeting with your constituents would be helpful, I will certainly try to accommodate that. There is a tension in the situation that is quite difficult to resolve, and if Government ministers can assist local authorities to strike the right balance, I would, of course, wish to engage in that process.

**The Convener:** I will allow a couple of supplementary questions, strictly on the subject of HMOs.

**Bob Doris (Glasgow) (SNP):** I will start by putting on the record the fact that students and others have not been demonised by the Government's approach to HMOs. It is important to provide some responsible context around the issue of how communities and individuals are affected. If someone has a family home in the same close as an HMO that happens to be a student dwelling, they might find that the students in that flat change every year, which means that, as soon as they have built up a good relationship with one set of students, another set might replace them. An area can experience a complete change of character due to an overconcentration of HMOs. Students have rights, and are not being demonised in the slightest, but other residents also have rights. It is important to say that I have met many people who have concerns about the overconcentration of HMOs but I have not met anyone who attempts to demonise students. It is irresponsible to say that that is what is happening.

As a Glasgow MSP, I have had several representations about concentrations of HMOs in certain areas. One of the problems that I have encountered in dealing with that has involved trying to get a definition of a designated area for the purposes of calculating the percentage of

HMOs. Are there Government guidelines on that for local authorities?

**Stewart Stevenson:** The issue that you are asking about is a matter for the local authority. In my constituency, there is a substantial number of HMOs and we probably have around 2,000 or 3,000 migrant workers. However, we do not have multistorey buildings—I believe that we have only one four-storey building, and it is our highest—unlike city centres, which often have many tenements. That is why the local authority must consider what an appropriate definition of an area should be for the purposes of calculating the number of HMOs. The situation is further complicated by the fact that some houses have their own front door and others share a communal stairwell.

When I met the leader of the National Union of Students Scotland, who welcomed that meeting, he recognised that all parts of the HMO community, which is by no means limited to students, can be both good tenants and problem tenants, just as home owners can be a problem for their neighbours. The issue of behaviour is not related directly to HMOs although, because of the comparatively high turnover of people who stay in HMOs, sometimes the system is not sufficiently responsive to catch up with them in time to deal with a problem. Of course, action can be taken against the owner of a house, not simply the tenants, if antisocial behaviour is involved. The people who own premises have responsibilities.

**The Convener:** I invite a couple of brief questions on the issue. I am not sure that we are making any progress.

**Bob Doris:** I was following a line of questioning, convener.

**The Convener:** No. I am taking brief questions and supplementaries from members. I am not convinced—

**Bob Doris:** I will ask a brief supplementary question.

**The Convener:** I let you ask your question ahead of members who had requested to speak earlier. I ask you to respect that courtesy.

**Bob Doris:** I have no choice, convener.

**The Convener:** I invite brief supplementaries on HMOs. I hope that we will make some progress on the issue. The minister has answered a number of questions, but not much has changed in his previous four or five answers.

**Johann Lamont:** The draft proposal on HMOs was controversial with the NUS and Shelter, which raised the issues of more illegal HMOs, increased rents and shortage of supply. Can you explain the difference between the arrangements that were in

place before the publication of the draft SPP 3, what was proposed in the draft policy, and what you are suggesting now? At what point did you decide to issue guidance on HMOs in a circular? There was concern that permitting the establishment of quotas to address concentrations of HMOs would affect supply. Other people say that unless concentrations of HMOs are addressed, they will remain a problem in communities.

**Stewart Stevenson:** I will respond in a couple of ways. It is quite proper that we should respond to consultations; if we fail to do so, the consultation process means nothing. I acknowledge that I am responding to the consultation on the draft SPP 3. When we deconstructed concerns that were expressed about the document, we found that a large proportion of them related to the inclusion of HMO material in a planning document, which appeared to signal a radical shift in policy that we were not trying to make. Our taking the HMO material out of the draft SPP 3 and inserting it in planning circular 4/2004 reflects the need for distance between SPP 3, which is a planning document, and the planning circular, which is about joining up the planning system to the licensing system. The draft SPP 3 did not signal a dramatic shift of policy on HMOs, but the inclusion of HMO material in the document gave rise to concerns. It is right that I should respond to concerns that have been expressed, and I have done so.

You asked about the issue of increased rents, which was raised with me previously and which I failed to address. The suggestion that rents will increase is based on the hypothesis that in future there will be fewer HMOs than there were in the past. It is for local authorities to ensure that their application of planning rules to control and direct where HMOs are and how many there are takes proper account of the demand for HMOs. Planning authorities have done that in the past, and I expect that they will do so in future. We want to see a step change—and the local authorities do, too—in diminishing the number of illegal HMOs. We do not know what effect that might have, but ultimately only local authorities are in a position to ensure that enough HMO housing tenure is available to meet demand. It is their responsibility to do that.

11:15

**Alasdair Allan (Western Isles) (SNP):** You mentioned illegal HMOs, and I am thinking of the rights of tenants, particularly migrant workers. Does the Government have any idea of what efforts are being made at a local level to identify illegal HMOs and enforce the existing legislation?



**Stewart Stevenson:** That is not directly a question for me to answer, because it is in essence on a housing issue. It is a matter for local authorities, which carry out enforcement on the ground. We expect that the new HMO licensing regime under the Planning etc (Scotland) Act 2006 will improve enforcement because rent penalty notices to unlicensed landlords or those breaching licensing conditions can be imposed without the need to go to court and the maximum fine for unlicensed HMOs will rise from £5,000 to £20,000. Enforcement should therefore be easier and more effective.

There has been a pretty broad consensus that that is the way forward, and the practical difficulties in the system are, I hope, now being addressed. You are right to mention the addition of significant numbers of migrant workers, who are helping our economy substantially. We need to ensure that the tragic accidents that Ms Ferguson rightly referred to, which way back in time led to deaths in her constituency and problems elsewhere, are not repeated in the future with the new type of residence in HMOs. It is vital that we do that.

**The Convener:** I thank David McLetchie and Kenny Gibson for their patience—we will take questions from them to finish.

**David McLetchie:** Good morning again, minister. I want to return to the acceleration of land supply in the context of the review of SPP 3 as highlighted in “Firm Foundations”. On page 17 of that document, it says:

“In areas where there are particular pressures on housing supply, there is a need to encourage the quicker release of land for housing and the more effective use of existing housing land allocations. Importantly, the review will consider how a presumption could be introduced that will enable planning permission to be granted for developments in advance of land being designated in a development plan in circumstances where a demonstrable shortfall of housing exists.”

How do matters stand with regard to incorporating a presumption that enables planning permission to be granted for developments in advance of that land being so designated in the development plan?

**Stewart Stevenson:** The more consistent use of land audits allows for modifications where shortfalls are identified, and we want to ensure that plans continue to contain a five-year supply of housing land, as is the case under the 2006 act. Ensuring that there are regular reviews of action programmes is part of the issue. The consultative draft of SPP 3 reinforced the presumption—which I think that you are referring to—that, where there is a planning shortfall, planning authorities can act in the way that you suggest, provided that that is consistent with the overall locational strategy and other council policies.

**David McLetchie:** A network of local development plans is meant to have been rolled out in Scotland under the 2006 act, but there is an indication in “Firm Foundations” that, somehow or other, areas may be designated for housing in advance of communities and local people proposing local development plans and those plans being adopted. That will effectively make a nonsense of the development plan concept in some areas, because any discussions of or decisions on comprehensive development plans for those areas will be pre-empted. Is that correct?

**Stewart Stevenson:** Essentially, we are looking at areas of Scotland in which plans are far from up to date and indicating an area for flexibility while such a situation prevails. We want plans to be updated more regularly, and we want to change the character of the engagement between communities and planners in developing plans. It would be fair to say that there is modest interchange on plans at the moment and that we probably want to improve that, but we want to ensure that the planning system is flexible enough to ensure that we can progress the housing agenda. What has been proposed in part reflects that.

**David McLetchie:** I return to the issue of current market conditions and circumstances. Members have said that there seems to be very little prospect that we will get anywhere near 35,000 houses by the middle of the next decade. Last week, we learned from Homes for Scotland that work has ground to a halt on most new sites in Scotland and that there is a substantial inventory of unsold stock. One would like to think that a rapid recovery will take place, but the outlook is far from promising.

Earlier, we talked about silver linings. Instead of rushing ahead with premature and precipitate additional allocations of land in advance of development plans being devised, consulted on and approved, should we not use the interval or hiatus as an opportunity to ensure that in the areas in which there are the laggards that you have mentioned, we get on and devise proper development plans that have been consulted on with the local communities, and then—and only then—allocate land that has been properly identified and approved for housing? Would that not be a useful silver lining that you could adopt in your policy?

**Stewart Stevenson:** I think that the convener was, as ever, the expert in spotting silver linings.

**The Convener:** Ever positive.

**Stewart Stevenson:** I welcome that.

Essentially, Mr McLetchie has described where we are going forward. In the current circumstances, there will be less pressure to grant

planning permission when a local plan does not provide for that but, at the end of the day, what the planning system can do—and in the current circumstances this might have a bigger effect than it would in other circumstances—is relieve one constraint in the network of constraints that exist between our desiring to increase housing stock in an area and people getting keys to the front door. Planning has a role to play, but it does not stand alone and is not the only thing that needs to be considered.

**David McLetchie:** The issue is whether a presumption should be written into SPP 3 in the terms that are outlined in “Firm Foundations”. In the current and foreseeable circumstances, there is no need for such a presumption to be included in SPP 3. There would be no need for any presumption at all if we focused our energies on getting development plans up to date, because they would reflect the need and demand for housing in communities. Is that not the issue? No presumptions would be needed if the development plans were up to date.

**Stewart Stevenson:** I believe that Winston Churchill said that prediction is difficult, especially about the future. In the changes that we are making, we have not presumed that the conditions that prevail at one instant in time will prevail for the entire period for which the planning policy will apply. If, as a knee-jerk response to the current circumstances, we constrained what we are trying to do in SPP 3, I think that we would find ourselves having to revisit the policy—well, I hope that that is what we would do. We are taking a principled decision that we in planning can make a contribution to changing the way in which things are proceeding. For example, I highlight that our population growth will be substantially higher than that in the European Union 15 countries. Although the global conditions affect us, the local impacts may be different from those elsewhere. It would be difficult to justify not taking the opportunity for planning to make its contribution to relieving future constraints that might be important at a later time.

**David McLetchie:** Planning can make its contribution by having an up-to-date set of local development plans, with appropriate housing allocations identified, from which everyone can proceed with confidence. We are talking about the allocation of land for housing outwith the development plan process. I am glad to hear the minister taking Winston Churchill’s name in praise. He was very well aware of the need to have well-laid plans. I suggest that in Scotland we need well-laid development plans. We should be getting on with them and we should not have presumptions that pre-empt the conclusions and outcomes in well-laid development plans.

**Stewart Stevenson:** I am happy to agree with Mr McLetchie that we need and should have up-to-date development plans throughout Scotland. Provisions for the circumstances where that is not the case are sensible fallback provisions.

**Kenneth Gibson (Cunninghame North) (SNP):** I am glad that the minister is optimistic about population growth, given that Scotland has had the lowest rate of population growth of anywhere on the planet over the past century. He talked about the network of constraints. Surely one constraint is the way in which local authorities deal with developments. To what extent will SPP 3 ensure greater consistency of decision making by local authorities, with more objectivity and less subjectivity? How will the policy expedite the process? Despite the economic climate, several developers in my area want to progress, but there is an inconsistency of approach. For example, in one part of my constituency, houses have been built on land that is so wet and boggy that grass does not grow in people’s gardens, while in another area someone is being told to introduce elaborate flood prevention mechanisms, despite the fact that residents in their 80s say that there has not been a single day of flooding in the past 70 or 80 years. How do we ensure that the best plans that you and your team can devise are implemented expeditiously on the ground for the benefit of our communities?

**Stewart Stevenson:** Consistency and certainty will be important parts of sustaining confidence among the development community as we progress. In broad terms, we wish to speed up the planning system, although not necessarily to give different outcomes. For example, it is as valuable to give an early, “No, this is not appropriate,” as it is to accelerate to the point at which we say, “Yes, it is appropriate.” If we say no early, we avoid people wasting money and we allow developers to consider other projects. The housing need and demand assessment guide that was published in April sets out the process that local authorities should take, which involves not just assessing housing need but considering a range of important issues, including market demand.

Mr Gibson asked about how we respond to areas that present environmental challenges such as flooding and dampness. Local authorities must take a view on that, because the pressures on them are different in different areas, so the challenges in finding sites for housing are different in different areas. The Scottish Environment Protection Agency provides a lot of information on matters such as ground conditions and flooding, which I hope informs many planning decisions.

11:30

**Kenneth Gibson:** In my constituency, developments have been rejected by a planning officer who has no qualifications in hydrology, for example, but who makes subjective decisions about that. I am concerned that, despite the best will in the world to improve the supply of land for housing, decisions are inconsistent. On 18 January, I attended a public meeting in Arran on planning at which one individual said that a staff member had told him to build his property in one corner of a field and he produced a plan for that, which cost several thousand pounds, but when that staff member left the council, someone else was appointed who said that the property should be built in another corner of the field. That cost the applicant considerable time and money. Several such examples were presented at that meeting.

I am interested in achieving a consistent approach to SPP 3 by local authorities and in ensuring that proposals are progressed in a reasonable time. A developer wants to develop land in a year or two years and not in three, four or five years. That is especially important because of the boost that construction can give to a local economy.

**Stewart Stevenson:** Consistency is important. In one planning authority's area, one would expect the consistent and logical application of planning policies. To an extent, the question relates to vacancies and skills gaps in planning authorities, to which the member alluded. We are considering that issue.

I make the obvious general point that I am sure that local councillors would wish to hold their officials to account if the general feeling was that the advice that they received was inconsistent and variable. That would be an important step to take.

**The Convener:** I thank the minister and his officials for their evidence.

## Local Income Tax

11:35

**The Convener:** The committee will now take evidence on proposals for a local income tax. I welcome Angela Scott, who is head of the Chartered Institute of Public Finance and Accountancy in Scotland, and Don Peebles, who is policy and technical manager at CIPFA.

If you wish to make an opening statement, we will be happy to hear that before we move to questions.

**Angela Scott (Chartered Institute of Public Finance and Accountancy in Scotland):** I will take the opportunity to make an opening statement. First, I mention a caveat. A formal consultation process is under way, and we are working on our submission to it. Any comments that we make today will be drawn from that submission, although it is a work in progress. I suspect that members will have an appetite for beans from the bean counters, but we are still working on some of the bean calculations. If we are unable to give answers on some matters, we will follow them up later and will send the committee a copy of our formal submission when we submit it to the Government.

I will give the committee a flavour of the issues in our submission as it stands. In our deliberations, we have come across a number of challenging issues around legal competence and a number of areas that need to be addressed. It is beyond our professional competence to take them much further, but we will certainly include them in our submission and we look forward to the Government's response to them.

In our submission, as bean counters we identify the potential funding gap and provide some analysis of that. We also identify a number of technical challenges, although none of them is insurmountable. Where there is a will, there is a way: there are potential solutions to all the problems that we identify and we will submit them to the Government for it to address. The technical issues include what the introduction of LIT will mean for local authorities' cash flow and budget processes. There are also issues about the relationship between revenue and capital, which is probably an area that has not been debated much so far.

Given the new powers that were given to local government under the Local Government in Scotland Act 2003 and the introduction of the prudential borrowing regime, there is a potential knock-on effect on future capital investment. The committee might like to hear a bit more about that.

There is a raft of technical issues. Both today and in our formal submission, our comments will be made in the spirit of co-operation. We want to identify from a professional point of view some of the gaps and the issues that need to be addressed and we will then work with Government to address those.

**The Convener:** Thank you. I welcome that statement.

**David McLetchie:** Good morning. Will you elaborate on your point that the local income tax would have implications for the prudential borrowing regime and future capital investment? What did you mean by that?

**Angela Scott:** If you do not mind, I will go back a wee bit in history. Before the Local Government in Scotland Act 2003, each local authority was given what was known as a section 94 consent. In effect, that was a cap on the amount of borrowing that they could undertake. With the passing of the 2003 act, decisions about levels of investment and, in turn, levels of borrowing reverted to local authorities. The act introduced the prudential borrowing regime, and decisions about borrowing are now for local authorities to make.

As the professional body for local government, CIPFA was asked to develop the framework of the prudential borrowing regime. One feature is that, when there is a need for increased investment, local authorities have an opportunity to increase the council tax to fund specific projects. Hypothetically, if we wanted to build a new ring road around a city, we could go to the electorate and say, "We will increase the council tax by this much. The additional funding will go to support repayments of the debt for the ring road." Citizens would clearly see the relationship between the tax and the contribution that it made to a specific capital project.

One of the things that strikes CIPFA about removing the council tax and replacing it with a nationally set tax is that the ability to increase the tax specifically to fund capital investment would potentially be lost. That is one of the areas that we need to work through with Government. Changing the funding on the revenue side would potentially cause a knock-on effect on the capital side. Citizens would be able to see that direct relationship in relation to an increase in tax. It is an area that needs further consideration.

**David McLetchie:** Your observations would apply if there was a nationally determined rate of local income tax, because there would not be that local flexibility. I presume, however, that that would not apply to the same extent if there was a locally determined rate of income tax, because it could be adjusted by 0.1p, or whatever. Is that correct?

**Angela Scott:** Potentially, yes.

**David McLetchie:** So there would be the same flexibility in funding as before. On another technical issue, is it possible to introduce a local income tax in Scotland—whether it is determined nationally or locally by councils—without the co-operation of HM Revenue and Customs? If it is possible, can you map out what would be required organisationally to raise such a tax on a free-standing basis?

**Don Peebles (Chartered Institute of Public Finance and Accountancy in Scotland):** It is perhaps appropriate in answering that question to talk about CIPFA's role in examining proposals for income tax over the past few years. In 2004, CIPFA was part of the balance of funding review group, which was formed for England and Wales specifically. It examined—as its title suggests—the balance of funding, and it considered which models of local taxation might be appropriate for the modern era. CIPFA was asked, as part of the review group, specifically to examine the prospect and possibility of introducing a local income tax. We undertook a fairly significant study on that, and reported back to the group. Again, at the specific request of the group, we came back with a review of a possible model of local income tax, which was a supplement to council tax. Although the group covered England and Wales, its remit was extended to consider what the likelihood of such a tax might be for the United Kingdom.

The conclusion at that time, based on the review that was carried out specifically for that group, was that it was unlikely that a local income tax could be introduced without having to use HM Revenue and Customs. I stress that that finding was based on the specific requirements of the review group at that time, which was about four years ago. A specific study like that has not, to my knowledge, been undertaken in Scotland.

**Angela Scott:** The Burt inquiry raised the question of who has the legal powers to collect income tax. You are better placed than we are to comment on that, but Sir Peter Burt said that local authorities have the legal power to collect the tax—ministers do not. There is a legal question behind the role of HMRC and whether ministers could use it.

We have begun to examine the cost of and the performance in collection, in relation to the current position. The performance of local government in terms of collection is improving. The Accounts Commission annual report that was published today congratulates local authorities on improved collection. There are also statistics on the cost of collection. We are not clear about what the cost of collection would be under HMRC and how it would perform in terms of its ability to collect tax—that is an unknown. There are a number of issues: the

legality question about who has the power to collect; the performance of HMRC; and the cost of collection under any relationship with HMRC.

**David McLetchie:** With regard to who pays income taxes—or potential local income taxes—we have in the Scotland Act 1998 a definition of a Scottish taxpayer for the purposes of applying, if it were ever applied, a variable rate of the UK income tax, so there has been an attempt to define that.

I presume that, if we had variable rates of local income tax, we would have to define someone as an Edinburgh taxpayer, a West Lothian taxpayer or a Fife taxpayer. How would that be done? Would we work on the basis that if someone spent 90 days in Edinburgh that would make them an Edinburgh resident? If that person moved out with Scotland, we would have to consider whether they were taxable for the purposes of tax in Edinburgh. How would someone who moves from Edinburgh to Glasgow become a Glasgow taxpayer? How are we going to keep track of all those movements and of people's local income tax residence, for the purpose of establishing the tax liability of the population? As we know from a previous tax regime, many people are highly transient and difficult to track.

11:45

**Angela Scott:** We do not have the magic answer. You have just set out the arguments for a tax on property as opposed to a tax on individuals. That is why we need to discuss with HMRC its systems' capability and capacity to cope.

**David McLetchie:** I do not want to put words in your mouth, but I think you are saying that if we had variable rates of local income tax, we would have to have a definition of residency, by reference to local authority, of every person in Scotland, which might change from year to year as people move in or out of an area. Is that right?

**Don Peebles:** Indeed. As I understand it, the proposal uses the definition of a Scottish taxpayer in the Scotland Act 1998.

When we participated in the 2004 balance of funding review, we acknowledged that we would have to define residency at some point. A host of issues arose, some of which David McLetchie has touched on well. We realised that we would have to draw a line at some point in the financial year and we concluded—perhaps somewhat simplistically—that where a taxpayer was resident part way through the fiscal or financial year might be as appropriate a criterion as any. However, that would not be without its problems and there are many arguments for why it might not work. In any case, a line would have to be drawn.

**David McLetchie:** That is very helpful. Thank you.

**The Convener:** Does CIPFA in Scotland have a view on the broad principle of moving from a property-based local taxation system to an income-based local taxation system?

**Angela Scott:** The institute's preferred option is, for a number of reasons, the retention of a property-based tax. In our submission, we set out the principles against which we should test any system of taxation—whether it is a local income tax or a property tax—which include accountability, transparency, stability and predictability. Given those principles, our preference is for the retention of a property tax, but one that is more progressive.

In our submission, we aspire to set out the risks and rewards that are associated with a change in taxation. We do not have to go too far back in history to see the price that we as a country have paid for a change in the taxation system. There is a price to be paid at a number of levels. From a narrow financial point of view, the culture of non-compliance and non-payment that developed had a real cost, which is still being borne today in recovery of debt. We say in our submission that if we change our system of taxation, it is vital that we are confident that whoever collects the tax has robust and proper systems in place and that we make it clear to the public that non-compliance will not be accepted, because there is a real cost to it. We have a preferred position, but within the current agenda, we are trying to make it clear that there are risks in making the shift to a different system and that all those risks will have to be managed. The lack of management of those risks will have various costs.

**Jim Tolson:** CIPFA's response to some of what has been proposed is extremely interesting. You quite amusingly referred to yourselves earlier as bean counters. I have a problem with some of the beans that are missing—I refer to the beans that we might lose if we move to a person-based local tax, for example money that might or might not come from HM Government in the form of council tax benefit. There still seems to be a major shortfall in the Government's proposals in relation to what a 3p tax rate would bring in, against what is required to run services. What is CIPFA's view on the shortfall, the black hole—those missing beans, if you like—and how it can be adjusted or overcome?

**Don Peebles:** The fact that there is a shortfall is not news to anyone. The consultation paper acknowledges that there will be a difference between the tax that would be collected and the amount that is required for local service delivery, although the terms "shortfall" or "gap" are not used; the term that is used is the "adjustment" that

will be required, which we have taken to be a proxy for “shortfall”.

Our statistics team has done a number of preliminary calculations to try to identify the extent to which, in the 2008-09 financial year, resources that require to be gathered would not be available for local service delivery. That figure might be representative of the shortfall—the calculations reveal a figure of about £750 million. It is important to appreciate that that represents resources that would not be collected and which would consequently not be available for local service delivery. That means that resources would have to come from two sources: the shortfall from council tax subsidy or other parts of the Scottish block budget.

**Jim Tolson:** Does the £750 million include or exclude council tax benefit? If we could overcome that problem, what rate would the tax collection have to be above 3p in the pound to overcome the shortfall?

**Don Peebles:** The figure includes council tax benefit, on the basis that our expectation is that that would not fall to be a feature of the new system. If we were hypothetically to operate on the basis that the money could be recovered in some way, our estimate of the shortfall, based on the 3 per cent rate, is that it would be about £310 million. I stress that those are preliminary calculations for 2008-09—we will take the opportunity to refine and review them prior to our submission to the Government. We appreciate that, as Angela Scott said, there is an appetite for such a figure, so we are happy to talk about figures in broad terms to enable a debate and so that we can engage in debate with the committee.

**Angela Scott:** The other consideration in respect of the gap is that if we change the system of taxation, we will be changing it for a significant period, so we cannot consider only today's potential gap—we must also consider the future gap. If you look at this as purely a matter of income and expenditure, it is difficult, given the ageing population and all that goes with it, to put a figure on the future cost of providing all the services that we currently provide. There is also a big question over the future costs of local authority services, which results in another question about the income that we need to sustain them.

Another dimension with the local income tax is its volatility—it is difficult to predict the level of likely collectable income, because of which there is the potential for the gap constantly to change, based on the number of people in employment and earning income. A number of factors are involved in considering an income gap, which is an issue not only under an LIT, but for the future funding of local government per se. If we learn anything from history, it is that the system of

taxation has to be sustainable for the next generation and the generation after that; it is wrong to introduce a system of taxation that is not sustainable and cannot fund services over time. It is not an easy bean to come up with, which is the challenge in identifying the financial implications of a bill.

**Patricia Ferguson:** I was going to ask a similar question to Mr Tolson's, so I will perhaps go back a little bit.

Moving on from the mechanics of the system, which Mr McLetchie discussed, I appreciate that at times of high unemployment many vagaries must be factored into the system. As far as the process is concerned, am I right in thinking that if the money were to be collected centrally—by, I presume, HMRC—it would have to be disbursed to local authorities? If so, would some middle person have to do that? Would the money have to come back to, for example, the Scottish Government for disbursal?

**Angela Scott:** That is a question that we have asked. If the tax is set and the money collected locally, the process will be straightforward. However, if it is set nationally, how will the money be distributed? As members are aware, under the current system there is an equalisation between the council tax and the Government grant. In our submission to the Government, we intend to ask whether its aim is to maintain that equalisation throughout Scotland and, if so, what mechanism it will use to do so.

Moreover, if HMRC collects the tax, there will be a timing issue about when the money will come back to us. It could be a month or two before we physically get that cash. As Patricia Ferguson and I both know, when it comes to cash-flow management—although I am sure that you manage your cash better than I do—costs can be incurred if money is not coming into the bank. The question is certainly valid: as I said, we, too, are asking it. How will we get the money from whomever will collect it, and who will determine each local authority's share? Will it simply be that the local authority will retain whatever is attributed to an area? If so, will there be equalisation with the Government grant?

**Don Peebles:** It is worth adding that the cash-flow element might well incur real costs. We are working with one local authority on a case study to establish what that cost might be. The benefit of such a study is that it might allow the Government to identify the costs of the system across the board. The local authority in question has estimated that it collects 95 per cent of its in-year collection by January, which means that it can start to plan for the next financial year. However, with a local income tax, not all revenues are collected in-year; we need think only of self-

employed people, for example, to realise that there will have to be different payment arrangements. If there were to be a gap—of, say, eight weeks—between receipt by Government of the money and the payment of that money to local authorities in the first year of a new system, it would be possible to measure what the cash cost would be to the local authorities. I am reluctant to put a figure on it, but for large local authorities that one-off cost could run into millions of pounds.

**Patricia Ferguson:** I do not want to put words in anyone's mouth, but it sounds as though, given all the steps that will have to come between collecting the tax and distributing the money, a local income tax might be less local than has been argued.

Of course, all that raises the question of who would be responsible for chasing up non-payers. I presume that it would be HMRC, which means that local authorities and/or the Scottish Government would have to rely on the efficiency of that organisation in carrying out that task.

**Angela Scott:** At the moment, local authorities are responsible for chasing up such debt. When they set their budgets, they make an assumption at the outset about the likely level of non-collection, which is obviously why they have invested so much time and energy in converting people to paying by direct debit; after all, they want to get the cash into the bank as quickly as possible. One would have to assume that, if someone else were given responsibility for collecting the tax, they would also be responsible for chasing non-payments. As Don Peebles has made clear, all such activity incurs costs. Who would underwrite it? That is another question that requires an answer.

**Patricia Ferguson:** A question just occurred to me as Ms Scott was speaking. Do we have any idea of how many people in local authorities are engaged in council tax work? Surely, if such jobs are no longer to exist, a lot of people will have reason to worry about their employment.

**Angela Scott:** We do not have those statistics, but I am sure that the Institute of Revenues Rating and Valuation will be able to supply the committee with them. However, we should remember that local authorities also collect water charges. Even if the council tax were, in effect, to be abolished, people would still have a role not only in that respect but in administering housing benefits and so on.

**Don Peebles:** I have not come armed with employee numbers, but estimated council tax collection and administration costs in Scotland are about £40 million.

12:00

**Alasdair Allan:** I take it, Ms Scott, that your mention of previous forms of tax referred to the poll tax. If so, I declare an interest, as I was one of those who were neither willing nor able to comply with that tax at the time.

One of the reasons why the poll tax was controversial was to do with fairness. You cited several principles on which you based your position on the proposals for local income tax. Did the principles of fairness and ability to pay fall within the scope of your consideration?

**Don Peebles:** Our view—in keeping with the view of almost certainly everyone else in the room—is that the council tax is a regressive form of taxation. Furthermore, we believe that, because a local income tax is more related to the ability to pay, there will be more elements of fairness in that system. However, restriction of the definition of income to earned income merely pares away the extent to which the tax would be fair. In that case, elements of a regressive nature would be introduced into the local income tax, which would mean that some of the criticisms of the council tax could—I stress “could”—be applied to the proposed local income tax.

However, we think that there is a different way to view fairness. Fairness can be viewed not only in terms of what is fair to the individual or the couple but what is fair in terms of local service delivery and local authorities themselves. Perhaps unusually, we have extended the principle to consider what the impact might be on local authority services because, ultimately, some individuals who are recipients of local authority services will themselves be looking for fairness.

**Alasdair Allan:** You mentioned the restriction on the Scottish Parliament that means that it cannot consider unearned income. Do you feel that that represents an undue restriction on the powers of the Scottish Parliament?

**Don Peebles:** We would be interested to hear more about why that restriction applies to that extent. To return, yet again, to the work that we did on local income tax in the balance of funding review, we concluded that it would be difficult to include unearned income because a raft of additional costs are associated with it. I speculate that it might be that the current proposals have learned from that. Although none of the problems that we identified is insurmountable, as we said earlier, it is important to appreciate that there are consequences that arise from that restriction, one of which is that the tax can be accused of being less fair because the only income that is targeted specifically is earned income.

**Alasdair Allan:** On collection, you mentioned the question whether HMRC would have the

responsibility for chasing up unpaid tax. Would it be fair to say that it would do that the same way as it does in relation to income tax? Surely the collection rates for income tax are higher than they are for council tax.

**Don Peebles:** We do not have that information—I have yet to see what the performance levels for HMRC are in relation to income tax. Figures that will be published by the Convention of Scottish Local Authorities today will reveal an increase in council tax collection rates, which, in some local authorities, are as high as 99 per cent. I do not compare or contrast that with HMRC because I have not seen information on its collection levels. I would be interested to know the extent to which it can produce that information, because it is an important part of the debate.

**Bob Doris:** It is a shame that we do not have a written submission from you, as that would have enabled us to do you the courtesy of examining your thoughts on the matter in more detail. As that is not the case, the questions that we can ask you are a little restricted.

You have said clearly that you do not favour a local income tax. I assume that you have arrived at that view as a result of a cost-benefit analysis involving a comparison with the current council tax. Is that the case?

**Don Peebles:** Before I address your question, I will deal with your comment about the fact that you do not have a written submission. We came to the meeting with an understanding that we would not be making a written submission. The submission that we are preparing is for the Government's consultation and I ask committee members to respect the integrity of that process, as we do. As soon as we have prepared—

**The Convener:** To be clear, the committee and I understand that you are here on that basis and we appreciate your attendance.

**Don Peebles:** As soon as we have that information ready for public consumption, we will make it available to the committee and we will be happy to talk to the committee at any time about the detail of that submission. I understand and respect the frustration that you might feel in speaking to us today.

A cost-benefit analysis would be an extremely narrow view to take on taxation. You might expect such an analysis from us—we have already described ourselves as bean counters—and it is difficult to get away from what the financial consequences are, but it is important that we take a wider view of the consequences of the tax than simply considering the costs. However, as we are talking about public expenditure, the expression will ultimately be a financial one, which is why we spoke initially about the funding shortfall, which has direct consequences for service delivery.

Specifically, a cost-benefit analysis takes us into the realms of council tax collection versus local income tax collection, and the resources that are available for service delivery. We already know what council tax collection levels are and that councils have become extremely efficient at collecting it. However, we are unable to compare or contrast that with HMRC's collection levels because we do not know the extent to which it is able to match council tax collection levels, which are as high as 99 per cent in certain areas. As for the impact of a local income tax on services, it comes down to the resources that will be available. We have already said that, given 2008-09 levels, there is the prospect that fewer resources will be available, which means that it is difficult to justify the proposal that is before us.

**Bob Doris:** We know what the council tax situation is, but we are looking at the challenges and opportunities of a local income tax. For example, local authorities might not have to pursue non-payers, which would save them money. Further, if they were not administering the collection of council tax, that would liberate cash. There are all sorts of opportunities.

Obviously, you prefer a property-based tax. Do you agree that, if the council tax were to be retained, there would need to be a revaluation of properties? Do you agree that, for the 2 million properties in Scotland, that revaluation is long overdue? Do you know that it is estimated that, in Wales, around 750,000 properties would have to pay significantly more council tax if there were a revaluation? Have you estimated the cost of revaluing 2 million properties? If we do a cost-benefit analysis, we have to consider the costs—the social as well as the bean-counting costs—of keeping the council tax.

**Angela Scott:** The institute's view is that a property-based tax should be retained, but that a number of reforms should be made to the council tax system. Revaluation is one reform that we would welcome, as well as a number of reforms around the benefit system. We have not counted the beans on that to an extent that would satisfy you, so we cannot supply you with relevant numbers at this point.

**Bob Doris:** I am not frustrated that we do not have written evidence from you; I merely suggested that, if we had it, we would have been able to do you the courtesy of reading it before we talked to you. However, I am slightly frustrated that you can provide figures and estimates for the additional cost of the local income tax but not for what it would cost to revalue the council tax. You cannot do a cost-benefit analysis unless you look at both sides of the fence.

**Angela Scott:** That extends to a whole raft of aspects of both the current system and the



consultation document. You are quite right—we do not disagree. It is part of your role in converting the consultation document into a bill, and part of our collective responsibility, to make sure that the public know all the costs. The local income tax is one of a number of public policy issues that the institute is commenting on.

You are right that it is easy to number-crunch where there are numbers, but it is very unsatisfying to present numbers that are vague or not based on anything and that, dare I say it, journalists use to their own ends. Offering such numbers on a key issue for society is dangerous. We are guarded about the numbers that we are releasing into the debate; we want to ensure that we have confidence in them, because they are being used outwith our control. If we did not do that, we would be in breach of our duty to protect the public interest.

We do not disagree with you. What you describe is part of the process and we will play our part as more answers are provided. If we consider the council tax alone, you are right to say that savings could be made by not having local authority staff involved in collection or benefits administration but, on the other hand, the housing benefits system needs to be administered and water charges collected. The institute does not have enough information to allow us to do the complete analysis that you suggest. However, we will be more than happy to do that as the agenda develops.

**Kenneth Gibson:** You said earlier that the cost of council tax collection would be about £40 million a year. Have you any ballpark figures for what it would cost to collect a local income tax, either nationally or by 32 councils with variable rates?

**Don Peebles:** The most recent review that was conducted was the Burt review, with which I am sure the committee is familiar and to which we gave evidence. Burt used some of our evidence and undertook his own calculations. His determination at that time, which was three years ago, was that the annual estimated cost for HMRC would be of the order of £10 million. However, he cautioned that that figure was possibly understated. Burt also found that it was likely that there would be an additional cost for employers—his estimate was that it would be about £18 million per annum. That was for a local income tax; I do not recall whether he distinguished between a nationally set local income tax and one that was collected locally, but I am fairly certain that the £10 million was for additional costs for HMRC.

**Kenneth Gibson:** Is it logical to suggest that it is likely that it would be more expensive if there were 32 different collection rates?

**Angela Scott:** That goes back to the capacity of HMRC's systems. Without knowing the system, the query is whether it would be capable of administering 32 different rates. It might have that capacity, so HMRC might be able to make the collection. We need engagement with HMRC to understand what its systems are capable of.

**Kenneth Gibson:** I have one other point. Adjustment was mentioned in the context of the £750 million shortfall, £440 million of which is connected to benefits, although I do not really want to go into that. You suggested that, regardless of the benefits issue, there would be a £310 million shortfall, which represents about 1 per cent of the annual Scottish block. If that money is not collected, does that mean that there will be a £310 million tax cut for the Scottish public?

**Don Peebles:** My understanding is that if services were maintained at the current level, those resources would have to be found elsewhere from within the current Scottish expenditure block budget.

**Kenneth Gibson:** But if we were not able to raise those resources, for whatever reason, that £310 million would, in effect, remain in the pockets of Scottish taxpayers.

**Don Peebles:** And not in the control of local authorities—

**Angela Scott:**—and therefore not within their gift to spend on services.

**The Convener:** What impact would that £310 million tax cut that we are all looking forward to have on local services?

12:15

**Don Peebles:** The estimated tax take for 2008-09 is approximately £2.2 billion, and £300 million is a significant proportion of that. Under a nationally set local income tax, local authorities would not have the flexibility—other than by imposing fees and charges—to raise that money. It could come only from the Scottish Government.

**Johann Lamont:** I do not know whether the bean counters are frustrated by this, but when comparisons are done between the cost now and what the cost would be, it is put entirely in terms of what people would pay in tax. Is there any way in which you can quantify, in a way that people would understand, what it would actually mean if £300 million was taken out of local services? The tax rate could be set at 1p and we would all be better off by huge amounts, but how do you express the consequences? It has been suggested that the money will come in from somewhere else, such as national Government, but it is still a huge pot of money to take out of the system.

**Angela Scott:** I suppose that one does not have to look much further than Aberdeen City Council, which had £27 million of savings. If we consider the decisions behind that £27 million, we are talking about schools and care homes.

**Johann Lamont:** Have you done any work on an equality impact assessment of the cost of services? To a person who has no family or is in work, it may be that the loss of £310 million-worth of services is not very great. For a family that has a child with complex learning needs, however, the demand on services is greater. Would you expect that there would need to be an equality impact assessment of the consequences of saying, "Well, we have to live with that level of cuts"?

**Angela Scott:** We have not done that, but you make an interesting point about the fundamental nature of local government. Historically, local government was created to be there when people needed it. I often say that pre-marriage and children I never used public services; now I am constantly at their door. As a culture and a society, we have decided that we want those public services to be there when we need them, so that we can dip in and out. If people paid their part of the tax only when they needed it, that would be a radically different system from the one that our society currently has. As an organisation, we have not done that type of equality assessment, but I am sympathetic to what you are saying.

**Johann Lamont:** I will ask just one last stupid-person question. If national Government wants to get rid of council tax and wants an income tax of 3p in the pound to spend on local services, would it not be an awful lot simpler for it to admit that the tax is not a local income tax, and to use its power under the Scotland Act 1998 to vary income tax by 3p in the pound? Would that not raise the same amount of money?

**Don Peebles:** With respect, that is one for the Government. The answer is that it would not raise the same amount of money. You would actually raise less with the basic rate than you would at 3p on the top rate. It is a different tax yield.

**Angela Scott:** Do you want to see some numbers on that?

**Johann Lamont:** It is not a matter for a Government, in the sense that it could do that and it would be doing the same thing—it would be raising money at a national level to be distributed to local authorities. It could get rid of council tax and raise the money in that way and distribute it—but the funding shortfall would be bigger.

**Angela Scott:** The restrictions on the tax-varying power mean that going down that road would not generate the amount of cash that would be needed. It comes back to not comparing apples with apples.

**Don Peebles:** Under the tax-varying power, tax can be set only on the basic rate, whereas the proposal that we have in front of us is for 3p on the top rate.

**Kenneth Gibson:** The £310 million would equate to about 3 per cent of local government expenditure on an annual basis, if the whole 3 per cent fell on local government. Is that correct?

The leader of the Opposition suggested, in her hungry caterpillar speech a year ago, that there should be 3 per cent top-sliced efficiency savings every year. How would local government cope with that level of cuts in services on a year-on-year basis as opposed to this proposal, which would effectively be a one-off?

**Don Peebles:** I understand what the impact would be on local authorities of a £300 million reduction—assuming that there would be a reduction. It would be an annual consequence, not just a one-off, because it would be a reduction in the annual tax take. As for what that would mean, I have already given an indication of what proportion that is of £2.2 billion. Given that there would be no local flexibility to raise income back to that level, the only logical consequence would be an adverse impact on service delivery, but that is more properly a question for local authorities.

**Kenneth Gibson:** Indeed, but it would not be year on year; it would be a one-off hit. It would not be a 3 per cent efficiency saving year after year; it would be 3 per cent once.

**Don Peebles:** No, £310 million would be the annual reduction.

**Kenneth Gibson:** Aye, but it would not be £300 million in year 1, then £600 million and then £900 million, which is what a 3 per cent year-on-year efficiency saving would be.

**Don Peebles:** It would be £300 million per annum.

**Angela Scott:** You also have to factor in the volatility of the income base that you are taxing, so you cannot give any certainty about how much income the tax will generate. There is a potential gap as a consequence of volatility.

**Kenneth Gibson:** That goes up as well as down.

**Angela Scott:** That is right.

**The Convener:** Thank you for your evidence. As one of my colleagues mentioned, we look forward to seeing you in the future, further to your submission to the Government's consultation.

As previously agreed, agenda items 5 and 6 will be taken in private.

12:21

*Meeting continued in private until 12:44.*

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