

LOCAL GOVERNMENT AND TRANSPORT COMMITTEE

Tuesday 16 January 2007

Session 2

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LOCAL GOVERNMENT AND TRANSPORT COMMITTEE

1st Meeting 2007, Session 2

CONVENER

*Bristow Muldoon (Livingston) (Lab)

DEPUTY CONVENER

*Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)

COMMITTEE MEMBERS

*Dr Sylvia Jackson (Stirling) (Lab)
*Paul Martin (Glasgow Springburn) (Lab)
*David McLetchie (Edinburgh Pentlands) (Con)
*Michael McMahon (Hamilton North and Bellshill) (Lab)
*Mike Rumbles (West Aberdeenshire and Kincardine) (LD)
*Tommy Sheridan (Glasgow) (Sol)
*Ms Maureen Watt (North East Scotland) (SNP)

COMMITTEE SUBSTITUTES

Ms Rosemary Byrne (South of Scotland) (Sol)
Mr Bruce McFee (West of Scotland) (SNP)
John Farquhar Munro (Ross, Skye and Inverness West) (LD)
Dr Elaine Murray (Dumfries) (Lab)
Murray Tosh (West of Scotland) (Con)

*attended

THE FOLLOWING GAVE EVIDENCE:

Professor John Baillie (Local Government Finance Review Committee)
Sir Peter Burt (Local Government Finance Review Committee)
Peter Daniels (Local Government Finance Review Committee)
Dr Janet Lowe (Local Government Finance Review Committee)
Kenneth McKay (Local Government Finance Review Committee)
David Milne (Local Government Finance Review Committee)

CLERK TO THE COMMITTEE

Martin Verity

SENIOR ASSISTANT CLERK

Alastair Macfie

ASSISTANT CLERK

Rebecca Lamb

LOCATION

Committee Room 2

Scottish Parliament

Local Government and Transport Committee

Tuesday 16 January 2007

[THE CONVENER *opened the meeting at 14:00*]

“A Fairer Way”

The Convener (Bristow Muldoon): I formally open today’s meeting of the Local Government and Transport Committee. As this is the first meeting of the year, I welcome all members back and wish them a good new year. I look forward to an active few months before we break up for the parliamentary elections.

The first agenda item is the report “A Fairer Way” from the local government finance review committee, which was published a short time ago. I welcome some of the review committee: Sir Peter Burt, who was the chair; Professor John Baillie, Peter Daniels and Dr Janet Lowe, who were members; Kenneth McKay, who was a special adviser; and David Milne, who was clerk to the committee. I thank them for agreeing to give evidence on their report.

Before inviting Sir Peter Burt to make some introductory remarks, I remind members that mobile phones and BlackBerrys can interfere with the electronic equipment. On a number of occasions in recent months—though not too often in this committee, I hasten to add—the electronic equipment has been interfered with, so members should ensure that their mobile phones and BlackBerrys are all switched off.

With that, I invite Sir Peter Burt to address the committee on the report, after which we will open up the meeting to questions and answers from members.

Sir Peter Burt (Local Government Finance Review Committee): I will start by making three points.

First, there has been considerable misunderstanding, if not misrepresentation, of our report. We made no recommendation on the level of tax, and the media comment that we recommended a 1 per cent property tax was incorrect. We did not recommend that. What we did was point out that we have a 1 per cent property tax: it is called council tax. The amount raised in 2004-05 was equivalent to 1 per cent—0.94 per cent, to be precise—of the total value of the Scottish housing stock as estimated by the Scottish Assessors Association.

The £2 billion raised by council tax is raised in a regressive and unfair way. Effectively, the people in the most expensive houses are subsidised by those in the lowest price houses. If we shifted the tax along the lines that we suggest, regardless of the money involved, it would result in 45 per cent of households being better off and 20 per cent being no worse off.

I emphasise that we are talking about an arithmetic relationship. We have to consider the numerator, that is, the amount that councils raise, which in round numbers is £2 billion, and the denominator, that is, the total value of the Scottish housing stock, which, according to the assessors, is just over £200 billion, hence the percentage figure of 0.94 that I mentioned. That is not a recommendation but a statement of fact. If council tax were doubled to £4 billion, the percentage would go up, and if council tax were halved, the percentage would come down. It is purely arithmetic.

Secondly, in examining the tax options we reviewed the various options for objective criteria, which are set out in some detail in our report, and spent a great deal of time discussing the pros and cons of each criterion.

Thirdly, the conclusion to which we came is that the real problem remains the relationship between central and local Government. That was identified by Layfield 31 years ago this year and it remains the underlying problem today. Matters such as the balance of funding are secondary issues; the balance of responsibility and the balance of decision making are where the real problems arise. We think that there is a golden opportunity for the Scottish Executive, local authorities and, ultimately, the Parliament to try to resolve the problems. Thirty years ago, Layfield said that it was a nettle that needed to be grasped, but no one has had the courage to grasp it to date.

The Convener: Thank you for those introductory remarks. I now open up the discussion to committee members.

Mike Rumbles (West Aberdeenshire and Kincardine) (LD): Sir Peter, I will start by addressing an issue that you did not examine but which in my view, and in the view of Andy Kerr, who was the Minister for Finance and Public Services, you should have examined. When he announced your remit to Parliament on 16 June 2004, he stated:

“We know that it is not possible to look at local taxation in isolation—nor would we want to ... I have therefore asked the independent review group to look at: the implications for the rest of the distribution system; business rates; the mechanism for distributing grant between authorities”.—
[Official Report, 16 June 2004; c 9086.]

This is important. Many of us were pleased when the minister made that announcement, because we wanted your independent committee to examine the distribution formula for grant from central Government to local government. It is therefore hugely disappointing that your report states:

“We have interpreted the remit in a way that restricts our consideration of these ... issues ... This is in our view the only sensible interpretation of our remit.”

It certainly is not my interpretation of your remit and it is not the way in which many people interpreted it. We hoped that the inequitable distribution system would be addressed.

I will give an example, because I want to put my question in context. The area that I represent—Aberdeenshire—contains almost 5 per cent of the Scottish population but gets 10 per cent less grant per head of population from central Government than the average, which amounts to £36 million every year. We hoped that your review would investigate the issue. The distribution formula is agreed by the Convention of Scottish Local Authorities, but if something is detrimental to only one part of the organisation it ain't going to look at it. We put a lot of faith in what you were going to do, but after two years you have come back and said that you did not consider the matter.

Sir Peter Burt: First, that is a misunderstanding. We considered the matter—section 19 of the report deals with equalisation. Almost all the councils that gave evidence expressed unhappiness with the allocation of grant-aided expenditure, and COSLA accepts that the current distribution has its shortcomings. We recommended that ministers look closely at trying to improve the allocations, but paragraph 10 of section 19 states:

“COSLA rejected the idea of making the distribution system independent of the Scottish Executive and local government”.

There are reservations, but the allocation of moneys between councils is an extremely difficult issue. We recommended that it must be considered in detail. I add that the vast majority of councils—in fact, I think every single council that gave oral evidence—expressed unhappiness with the current allocation. That suggests to me—this is not a flippant point—that perhaps it is not that far from a desirable outcome. You talk about Aberdeenshire being disadvantaged. We heard the same from Dundee City Council, Orkney Islands Council, Glasgow City Council and even from the City of Edinburgh Council. They are all objecting. There will be winners and losers with any change to the allocation. The system is not perfect, but perfection is not for this world.

Mike Rumbles: If I may say so, although perfection is not for this world there is huge disappointment. I quoted paragraph 4 of section 2 of your report:

“We have interpreted the remit in a way that restricts our consideration”.

Sir Peter Burt: Which is what we did.

Mike Rumbles: You directed me to paragraph 10 of section 19, which is on page 185. The first sentence of that paragraph states:

“Aberdeenshire Council raised both general concerns about the distribution system and a number of detailed points”.

It is a fact that your independent review did not include a review of the distribution system. It was hoped that the review committee would carry out an independent review of that system; indeed, doing so was part of the remit that ministers gave you, and it was reported to the Parliament that you would carry out such a review. However, you did not do so.

Peter Daniels (Local Government Finance Review Committee): It was intimated to us that the impact of arrangements on the current GAE revenue support grant system was an associated issue. Our remit is set out on page 5 of the report; associated issues are listed at the bottom of that page. We treated the current GAE RSG system as an associated issue.

I have been involved with the distribution system and GAE for 20 years. A root-and-branch examination of the GAE system would have taken longer to produce than the report took to produce—perhaps twice as long. You said that you expected a fundamental examination of the GAE system to have taken place. I do not know who else expected us to undertake such an examination. COSLA told us that there was broad consensus that the current formula for core Scottish Executive funding should be retained. Indeed, everybody who spoke to us said that the size of the cake rather than its distribution was the main problem.

You mentioned Aberdeenshire Council. It was one of only two councils that made detailed submissions to us. Everybody had something to say about GAE, but it is significant that COSLA said that there was consensus on retaining the current formula. Orkney Islands Council was the only other council that made a detailed submission to us. The two councils made submissions on their own behalf and argued their own case. When we took oral evidence from the other authorities, they argued almost without exception in favour of a system that would produce more for the individual authority in question.

There has been a misunderstanding. The impact of arrangements on the current GAE RSG system would not have been listed in our remit as an associated issue if we were expected to examine that matter in depth in a root-and-branch examination.

Mike Rumbles: Addressing that issue was clearly part of the review committee's remit. You said that you did not want to conduct a root-and-branch review, but did not alarm bells ring when councils such as Aberdeenshire Council said that the system—which was agreed between COSLA and the Scottish Executive and cannot therefore be changed—was wrong? You took evidence from COSLA, which said that the system is fine, but councils such as Aberdeenshire Council looked for an independent analysis of the system.

I accept your point about a root-and-branch review of the system being difficult. Therefore, you decided not to undertake such a review. However, should not a comment or observation on the matter have been made? Take the example of a council receiving 10 per cent less than the average grant per head of population in Scotland. Should there be a limit on how low a council's grant can go in that regard? Nobody—including Aberdeenshire Council—has argued that councils should have a distribution system that is based simply on population; rather, people have argued for a fairer distribution of the cake. Perhaps it would have been helpful if it had been observed that there should be a limit under which no council's grant should be allowed to fall.

Peter Daniels: What would that limit be? We did not consider that issue. As I said, Aberdeenshire Council and Orkney Islands Council were the only two councils that gave us detailed submissions. I think that we received submissions from 25 of the 32 councils. Twenty three councils chose not to make a detailed submission on the GAE system or the funding methodology.

The issue for us is how much weight to give to that. I know from my involvement in COSLA over the years that Aberdeenshire Council has made its case for at least 15 years and that COSLA has simply not accepted it. The reality is that a council makes a case for itself and the councils that would be disadvantaged make the opposite case or vote down the proposal. The distribution system is a question of self-interest for the councils.

14:15

Mike Rumbles: Excuse me, I am sorry, but may I make one point?

The Convener: Just one last point.

Mike Rumbles: Peter Daniels knows as well as I do that more than 120 criteria can be tweaked.

The matter is not simply about self-interest; it is about justice. I am surprised by your response, because if COSLA and the other councils said, "The system's fine. We really want more money—the distribution system's not important," should not alarm bells have been set off for your report when, as you said, one or two councils turned around and said that they had been trying for years but could not get past COSLA? We had the opportunity of an independent review, so it is hugely disappointing that, having heard the evidence, the review committee decided not to go there because 90 per cent of councils were happy.

Peter Daniels: We say in the report that the system needs to be kept under review by COSLA and the Scottish Executive. Cognisance must be taken of authorities such as Aberdeenshire Council and Orkney Islands Council, which make such detailed submissions. However, that is a longer-term issue that was not for us.

The GAE mechanism was listed as an associated issue in our remit. Our remit was to review the different forms of local taxation, including reform of the council tax, against about eight or nine criteria. The GAE mechanism was an associated issue and was not a central part of the remit. We concluded that the mechanism needs to be kept under review and suggested that the Executive and COSLA might consider the case for introducing an independent element into the distribution mechanism, so that a more objective view might be taken of the decisions on individual service treatment.

Ms Maureen Watt (North East Scotland) (SNP): I will ask more general questions to start with. Sir Peter, what do you understand by subsidiarity and what are your views on it?

Sir Peter Burt: What I understand by subsidiarity is that decisions should be taken at the lowest possible point, as close to the customer as possible. I am wholly in favour of subsidiarity. I do not see why devolution should stop at Holyrood.

Ms Watt: At least we agree on that. The McIntosh commission, of which I was a member, recommended in its report that there should be parity of esteem between the Scottish Parliament and local councils. How can we go about achieving that? Is finance part of that?

Sir Peter Burt: That is a very good question. My colleagues might like to add to my answer.

We spent quite a lot of time and took quite a lot of evidence on that question. We asked everyone who gave evidence whether they considered it important that local authorities should have fundraising powers. With the exception of people from the majority of local authorities, people said no and that such powers did not really matter—

what was important was how the money was spent and how efficiently it was spent. Western Isles Council and Orkney Islands Council said that they did not care where the money came from; they regarded themselves as responsible to the electorate for every penny that they spent.

We discussed whether local government would work better if, instead of having all the allocations, statutory ring fencing and guideline obligations that are imposed on them, councils had a single-line budget that just gave them the money and said, "Spend it to the best of your ability." We did not come to a conclusion on that, and would certainly not be unanimous on it. However, one piece of oral evidence suggested that the amount of discretion that councils have over what they spend amounts to less than 10 per cent of their total budget. How is it possible to hold somebody accountable if they are not responsible for their budget?

Dr Janet Lowe (Local Government Finance Review Committee): We also took some evidence about what the electorate thinks. We undertook two opinion polls—a quantitative survey and a qualitative survey—which tended to confirm that the esteem in which members of the public hold councils depends primarily on the quality of the services that the councils provide. That corroborates the point that the extent to which councils are given discretion to provide a quality of service that directly meets their electorates' needs largely determines the esteem in which they are held. Therefore, to have parity of esteem, councils need as much discretion as possible to determine what they spend their money on to the benefit of the people.

Ms Watt: It is interesting that you did not come to a conclusion on whether councils should raise their own finances. I served as a councillor and have known councillors for ages. They feel that they have less power now than they ever did—in many ways, they are just doing the bidding of the Scottish Executive and Westminster—so, if councillors had the power to raise money locally and had discretion over more than 10 per cent of the budget, surely they would feel that they had more manoeuvrability to do their own thing within their councils and might be able to provide a better service than they can under the present system.

Sir Peter Burt: That depends on their having more decision-making power over their expenditure. I do not think that the two are connected. In Scotland, the amount that is raised through council tax already accounts for on average 19 per cent of councils' budgets. If our respondent was correct and councils have less than 10 per cent discretion over what they spend, their manoeuvrability could be doubled simply by allowing them discretion over spending everything

that they raise in council tax. The critical point is not how the money is raised but that councils should be given responsibility for deciding how it is spent. All the evidence that we saw suggested that giving them that responsibility would go further towards restoring parity of esteem than anything else would.

Ms Watt: There is now a growing body of opinion that it is not sufficient for the Scottish Parliament just to spend money and that, if it is to grow in esteem, it should raise its own money too. Can the same argument be used for councils?

Sir Peter Burt: With the greatest respect, most of the anecdotal evidence that I have seen suggesting that has come from people within the Parliament rather than those outside it.

Ms Watt: We will agree to disagree on that. Is it right that the Scottish Executive should put pressure on councils to keep the rise in council tax to as low a figure as possible every year?

Dr Janet Lowe: That is outside our remit. However, in one chapter of our report, we urge that the decision-making process be improved, as Sir Peter Burt said in his introductory remarks. The relationship between the Parliament, Executive and councils appears acrimonious to the public when the allocation of funding and levels of local taxation are being decided on. That relationship needs to be resolved, which is more important than our commenting on how the tax is set. It is a bigger issue than simply how the tax is set; it is about the nature of the relationship, the total amount of money that is available and the balance of how it is raised. That all comes together in the need to resolve the relationship.

Sir Peter Burt: All the evidence we received suggested that what is critical is how well councils deliver services. That is what the electorate perceive as important.

Michael McMahon (Hamilton North and Bellshill) (Lab): In the previous session, the Local Government Committee considered this issue, although its remit was different. Obviously, if you ask different people about where you want to go with your inquiry you might end up with different answers. The Local Government Committee concluded that the council tax was fundamentally sound but required addressing at the margins. You have said that no amount of change at the margins would improve the council tax. Is there nothing in your modelling to suggest that the council tax could be made more progressive or fairer?

Professor John Baillie (Local Government Finance Review Committee): As you might imagine, we considered that in considerable detail. We considered three particular areas: first, expanding the number of bands at the bottom and

the top; secondly, changing the multiplier for the top band—the maximum band H—from three times the bottom band to something much greater; and thirdly, revaluations. Interestingly, when we modelled suggested changes to the bands, the difference in the outcome in terms of progressivity was marginal, which surprised us.

We then looked at changing the multiplier. We took a number of different bases for the multiplier change, for example the average house value at the top end—band H—against the average house value at the bottom end. That made a little difference but not a great deal. Our essential criticism of the current council tax was that it is not progressive. The only basis for the multiplier that made a significant difference in those terms was to relate it to income bands—in other words, the income deciles. We took the relationship of a £100,000 income to the income of a single person on income support, which is a ratio of 42:1. At last, that made a difference in terms of progressivity. About 50 per cent of people would benefit from such a move.

However, having only eight bands created great tension between each threshold, because the difference between one threshold and the next was quite significant. We would have to expand the number of bands in order to reduce that tension. The problem is that you start to expand the number of bands to the point where you think to yourself, “Why bother expanding these bands on an arbitrary basis? Why not simply expand to an infinite number of bases, called individual valuations?” In a sense, that is how, as part of our thinking, we came round to individual valuations as part of a local property tax.

Sir Peter Burt: We were surprised by that. Sir Michael Lyons, who is doing a similar study in England and Wales, conducted a similar assessment and was equally surprised by the fact that in order to make council tax less regressive it is necessary to move to a huge number of variable bands.

Professor Baillie: My final point is about revaluations. The last one was performed in 1991, and no one disagrees with the principle of revaluation being part of updating the council tax base.

Michael McMahon: One of the other fundamentals is the inclusion of property in calculating the basket of taxation. Should that be considered? Most countries have some element of property base at some level in assessing taxation. Is that a fundamentally good principle?

Professor Baillie: Yes. Indeed, that was one of the foundations of our view that there should be such a basket of tax and that if wealth is being enjoyed in the form of property, as a surrogate for

most wealth, it is right and proper that that enjoyment should be subject to tax.

Michael McMahon: Some people argue that taxation can be progressive and fair only if it is based purely on income. Do you have a response to that? Can there be a genuine basket of taxes that does not include some degree of property assessment?

14:30

Professor Baillie: The review committee's position is that there cannot. It is right and proper that a property tax on some basis—never mind our specific suggestion—should be part of the basket of taxes. If a property tax is not included, the burden falls somewhere else, and there are only a limited number of bases left: people—the poll tax, if you like—but that does not seem too popular; and transactions and sales taxes, but as core taxes for council fundraising, that approach does not seem too clever. Therefore, we are left with income, and that means that those who work are taxed on their effort and have to carry the burden that would otherwise have been carried by those who own property.

Dr Lowe: We noted that income tax already contributes 30 per cent of total taxation. Therefore, if property were not to be taxed, it would be likely that that burden would be transferred to an income tax. In looking at the options available to us, we considered property and income as the two most likely forms of local taxation. One of our reasons for advocating a property tax was that income tax already contributes 30 per cent to taxation, and therefore to local taxation, given that 80 per cent of local government expenditure is funded from national taxation anyway.

Peter Burt is reminding me that, to the extent that it was possible, we also looked at the way in which burdens fall on households. If a local income tax, rather than a local property tax, were levied, a household with two working adults, both of whom earned the average salary of around £20,000 to £22,000, would pay significantly more.

Michael McMahon: The figure of 6.5p has been mentioned as the level at which local income tax would have to be collected if it was to replace the council tax. Did the calculations that produced that figure include any consideration at all of the burden that would be placed on 32 local authorities doing all the additional bureaucratic work of establishing a database on which to base the collection of that money, or was it purely an arithmetical calculation per capita—X number of people divided by X amount of money? We now know that the pay-as-you-earn system cannot be used to assess local income tax unless there is primary legislation at Westminster, so each local

authority would have to establish its own database. Was any consideration given to that in the calculation of the 6.5p rate?

Kenneth McKay (Local Government Finance Review Committee): The local income tax rates were those provided by the University of Stirling, which did the modelling work for the review committee on a purely independent basis. The detail of how the figures were calculated comes from the University of Stirling, but there is no reason to doubt the modellers' methodology. The 6.5p is an arithmetically calculated figure. The costs of running a local income tax system, however it is run—whether the rate is set nationally or locally—are dealt with separately in the report, but they do not impact on the figure of 6.5p.

Sir Peter Burt: We spent a long time discussing the philosophical objections to a local income tax, including the burden that it puts on to other forms of taxation and the reasons that John Baillie gave. The practical problems of introducing 32 separate local income taxes, particularly given the fact that so much is deducted at source in the UK tax structure, almost beggar belief.

David McLetchie (Edinburgh Pentlands) (Con): I wish to ask about the immediate reactions to your recommendations following the publication of your report. You will be aware from reports in the media that no sooner was the ink dry than it appeared that your principal recommendation was being comprehensively rubbished by the Scottish Executive, which commissioned the report, starting with the First Minister's spin doctor. Could you comment on whether, in light of the Executive's response, you feel that you have wasted two and a half years of your valuable time on a task that produced recommendations that were not treated seriously?

Sir Peter Burt: I return to my opening point. We did not recommend a 1 per cent rate. That was a misrepresentation or misunderstanding of the fact that, if a local property tax had been introduced in 2004-05, the rate would have been 0.94 per cent. That was a statement of fact, not a recommendation. What the level should be is a matter of simple arithmetic, and it depends on the reallocation of expenditure from other areas. You might say that our report was a great success, given that it was comprehensively rubbished by every political party.

Dr Lowe: I will make a personal response to that question. I do not feel that I wasted my time for two and a half years—not at all. The report is a very substantial and well-researched piece of work. It is in the public domain and it is a very good piece of information about all the issues relating to local government finance. I have some confidence that, over time, it will be read and

considered. I am certainly proud to have my name attached to it. I did not waste my time.

David McLetchie: Leaving aside the contentious issue of the rate of a LPT, which got a lot of people very excited, do you think that, judging the comments and reactions that have been given, the principle of an LPT is under active consideration, or do you think that it has effectively been dismissed?

Sir Peter Burt: The Local Government and Transport Committee is better placed than I am to answer the question whether it has been dismissed or not. The underlying principle of an LPT is a good one because, regardless of the rate, 45 per cent of households in Scotland would be better off than they are under a banded council tax system, and 20 per cent would be no worse off. The 35 per cent who would be worse off probably include most of us in this room, and that is probably the way that it should be.

Peter Daniels: It is interesting that, the week after our report was published, the Scottish Executive announced that the average house price for the July to September quarter was £142,355. The 1 per cent figure that was latched on to by the press related to the average house price in Scotland of £101,000 in 2004-05. If we had produced our report a week later, the percentage rate—the illustrative LPT rate—rather than being 0.9 per cent, would have been 0.6 per cent.

David McLetchie: That is what it is in Ireland.

Peter Daniels: Yes.

David McLetchie: I will move on from the subject of reactions to the report.

The relationship between local government and national Government has been mentioned, with the funding of local government services being one of the fundamentals that must be addressed. Is not a fundamental point that must be addressed before that the question of which services a local tax should make a contribution to? In other words, the question of who funds which services assumes that the present pattern of who runs the various services and which services are local remains the same. For example, if you say that police or fire services should be wholly funded by the Scottish Executive, there would clearly not be a council tax or other local government tax contribution to the cost of running those services.

Likewise, if, as Lord Sutherland suggested last year, schools were run not by councils but by boards, which would be directly funded in a way that would be similar to the way in which colleges and universities are funded, no local tax contribution to the running of schools would be required.

Forgive me if I am wrong, but no consideration seems to have been given to what should be funded as a local service and what should be funded as a Scottish service from the Scottish Executive block.

Sir Peter Burt: We discussed that issue at considerable length. I return to Ms Watt's comment about subsidiarity. We all believe that things should be managed as close to the customer end as possible. In education, it has been argued that that management is best delivered through local authorities; there are also arguments in favour of Stewart Sutherland's recommendation. I have to say that, in the evidence, I was extremely impressed by the quality of local authority staff. The executives—almost without exception—came across as extremely competent and on the ball. It is easy to assume that, if you change the structure, something will work better. However, I am not sure that changing the structure is necessary in this case. I think that, if the staff were given more freedom, you would see an interesting increase in efficiency.

In my previous life, it was always tempting to think that head office could do the job better than the local branch manager, but the experience was almost always the reverse.

Tommy Sheridan (Glasgow) (Sol): You will probably not be surprised to learn that my criticism of your report is different from that of most of the other parties. I seem to remember that the detail that I brought to the table in Edinburgh in relation to my proposal was substantially greater than the detail that you received from any other political party in terms of estimates and the range of payment for individuals.

Why, in the course of producing your report, did you not take time to reflect on the question whether the Council Tax Abolition and Service Tax Introduction (Scotland) Bill should have been considered? Did you feel that the bill was too progressive and radical? Is that why it did not feature?

Sir Peter Burt: My colleagues might like to supplement what I am about to say, but my answer would be no. I see the Scottish service tax as a variation of local income tax. I thought that it could have an adverse economic impact in terms of fiscal flight, but that is a matter of opinion. In short, we saw it as a variation of local income tax, which we rejected.

Professor Baillie: The issue goes back to a choice between using those who work for a living as the tax base rather than using property as a tax base, which spreads the basket of taxes. However, on top of that, our work showed that, using a local property tax system, which we

recommend, 50 per cent of people would be better off and a further 16 per cent or so would be no worse off—I have rounded off one or two figures in saying that, but that is the general thrust. That means that the people at the lower end of the income scale who have been funding the higher end of the scale would no longer do so, thereby achieving some of the redistribution of wealth that Tommy Sheridan talked about during the review committee's hearings.

14:45

Tommy Sheridan: I am pleased that you have referred to the redistribution of wealth. I have used the term several times, as members of the Local Government and Transport Committee know, because they scrutinised the Council Tax Abolition and Service Tax Introduction (Scotland) Bill, which was my member's bill.

In your report, you seem to dismiss the objective of the redistribution of wealth. On page 93, you say that there is "no compelling reason" to change the income tax structure in Scotland and the UK, but I would have thought that the ability to have an impact on inequality was a compelling reason.

You have not seriously considered my proposal. In paragraph 19, you suggest that I was the only person who said in evidence to the review committee that we should change the tax structure. From the details that I provided when I gave evidence, you know that we proposed a tax that would be set nationally, rather than a tax set by 32 local authorities. At paragraph 20, you say:

"There appears to be no compelling reason why different tax bands should apply across Scotland. The complexity and cost for employers and for HMRC in administering a series of local income tax arrangements, each with their own series of bands, would be immense."

In other words, you put up a straw man in terms of what was being suggested—

Sir Peter Burt: In terms of your suggestion; not in terms of a local income tax. Two submissions were in favour of locally set local income tax bands. You are quite right to say that your submission favoured a Scotland-wide approach. I still think that that would be the wrong way to go. We do not think that your proposal stacked up against the objective criteria as well as the proposal for a local property tax did. It is a question of evaluation and of weighing the evidence: you weigh it one way and I weigh it another.

Tommy Sheridan: I do not have a problem with your rejecting a proposal; I have a problem with your not properly considering it.

On page 98, you give an example of how local income tax could work. Examples are important, because real people look for them. You identify a

range of payments for a household made up of two adults who each earn £20,000, but you do not say what those people would pay under the only proposal on the table that had been academically researched. Under that proposal, the couple would pay £450 each, or £900 in total, which is less than the council tax. Why did you not give those figures?

Sir Peter Burt: Because your proposal would have the unacceptable economic consequence of fiscal flight. That might be different if we were an independent country, but we are not; we are part of the United Kingdom. Indeed, even if Scotland was an independent country, your tax proposal would lead to fiscal flight. We have a limited number of large employers in Scotland and it would be relatively easy for them to relocate.

Tommy Sheridan: Are you willing to repeat that point, even though your report states categorically that there is no empirical evidence of fiscal flight?

Sir Peter Burt: There is some empirical evidence of fiscal flight, although it is not compelling. For example, in America there has been considerable fiscal flight between states.

Tommy Sheridan: You do not provide compelling evidence of fiscal flight—

Sir Peter Burt: Not across national boundaries, but—

Tommy Sheridan: Even across states, I suggest that the effect is marginal.

In the report, you discuss the economic effects of a local income tax and identify the criteria that you considered. Why did you not consider the marginal effects of propensity to consume in the macroeconomic context?

Sir Peter Burt: We considered that issue and discussed it at length with the economic advisers. The problem is that it is extremely difficult to be sure of the effect. You might well be right and your figures might well be correct, but I think that the risk is too high.

Tommy Sheridan: In the report, you say that you considered propensity to work. However, the only detailed proposal that you had before you suggested that a surplus of £300 million would be generated in Scotland via redistribution and that the marginal effects of propensity to consume—

Sir Peter Burt: But that was a static state analysis. It did not assume that there would be any loss of economic activity in Scotland.

Tommy Sheridan: Danson, Whittam, Cooper et al, who are respected economic researchers and deserve the same respect that you have given to other academics, worked with what they had to hand. We all agree that Scotland needs more rigorous academic and economic data, as we are

unable to determine exactly what is going to happen if we change our macroeconomic or even microeconomic levers. However, on the basis of the data that we have, those researchers provided a report that predicted a surplus of £300 million over current council tax revenue generation. I am suggesting that even to dismiss that would have been better than just ignoring it. I think that, in the review committee's report, you should have dealt with what was on the table rather than what people came along and thought out loud. We gave you rigorous academic research that has been around for several years and has been peer reviewed repeatedly—some people have criticised it and some people have supported it—yet you appear not to have given it the consideration that it deserves. Why was that?

Dr Lowe: I confirm that it was given full consideration. You put a considerable body of evidence before us and it was considered as thoroughly and in as much detail as any other evidence that was put before us. I am sorry if you feel that we have not properly reflected that in our report—we apologise. However, there is no doubt that that evidence was considered.

Your key objective has always been very clear—it is the redistribution of wealth. Our key objective was to identify a local property tax system that would best meet the needs of raising finance for local government; therefore, we came to the subject with two different objectives. In considering what local tax to recommend, we took account of all the evidence that you provided. However, as my colleagues have said, we decided, on the basis of all the evidence, to reject in principle an income tax. One reason for that decision was the practicalities of implementing an income tax. The proposal that you put to us did not meet our criteria as well as the option of a local property tax—which we chose to advocate—did. We considered the proposal that you put to us, and it was assessed against our criteria on the same basis as were all the other proposals that were put to us.

Tommy Sheridan: My final point relates to an example in the report that you almost repeated earlier: the assumption made about two adults on the average income. Do you think that it is useful to use that assumption in evaluating my, or any other, tax proposal? According to the Executive's figures, some 78 per cent of households in Scotland have an income that is less than £40,000 a year, so you are talking about only 20 per cent of the population. Why is that assumption constantly used as a totem pole for comparison, although it represents a minority?

Dr Lowe: You are right to say that we found it difficult to produce evidence about the impact of taxation models on different families. We asked

the University of Stirling to give us evidence of the impact of different taxation models on different families, and it found that very difficult simply because of all the different factors that impact on a household's income and expenditure. You are right to say that we quote only one example, although there are many others. We quote that example because it is illustrative of the differential impact of a local income tax as compared with the impact of a property tax.

Tommy Sheridan: It is also not a representative example, as it represents only 20 per cent of households.

Dr Lowe: It would be difficult to find one example that represented the majority of households. Any example is likely to represent a minority of households if we factor in all the different circumstances of a household's income, expenditure, family demands, circumstances, or whatever. That was the problem that we had in coming up with illustrative examples.

Tommy Sheridan: Fifty-two per cent of households in Scotland have an income of between £25,000 and £30,000. That is a majority, so would that not have been a better example to work with?

Dr Lowe: It would have been, but the demands on households' expenditure are all different. A household's disposable income is very much to do with the demands on expenditure, which, we found, vary enormously.

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP): I want to put to the witnesses the terms of a brief letter that all committee members received recently from a senior citizen who puts quite well the case against a property tax and, conversely, the case for some form of income-based tax. The lady says:

"I am a pensioner who thinking I was being prudent decided to try to top up my company pension scheme to provide additional income in my old age by paying additional voluntary contributions while I was working. I now find that because I did without holidays while working in an attempt to save for my old age ... I am just above the scale for qualifying for Council Tax Benefits so therefore now have to do without holidays and have to cut back on heating and food so that I can afford to pay my Council Tax."

A great many people on fixed incomes, notably senior citizens, find themselves in that trap: they do not qualify for council tax benefit and would perhaps have to pay a property tax. Many of them live in large houses, for example, if they are widowed, and so pay an extremely hefty council tax bill, given the increases that have arisen in the years since the tax's introduction. I want to ask about the proposal for a local property tax. Although the LPT would be a less crude property tax based on value—it would be based on actual

value rather than the banded value—under the LPT, would not the problem remain for that lady and hundreds of thousands of people like her throughout Scotland?

Sir Peter Burt: Yes.

Fergus Ewing: We are not used to such brevity, here. That is most refreshing.

The Convener: You can follow the example if you want, Fergus.

Mike Rumbles: Keep it brief.

Fergus Ewing: The holy grail is out there somewhere.

I want to ask about one particular aspect of the local income tax option, which my party advocates. I was struck by Dr Lowe's comment a moment ago that your collective key objective is to find a local property tax. Your committee's remit was, of course, to review local government finance. Dr Lowe made it clear that you started by considering income-based options, but dismissed them because, I presume, they would be too onerous and expensive. Perhaps one reason why that conclusion was reached was that your committee decided that the local income tax would have to raise all the money that local councils get from the council tax and that there would be no payment to Scotland of the approximately £511 million of council tax benefit. I suspect that the idea was that, were we to choose a local income tax rather than a property-based tax, Scotland would somehow forfeit that huge amount of money whereas, under your alternative tax, Scotland would keep the £511 million.

I want to focus on that. Why did you conclude that Scotland would be punished in that way? Page 140 of your report states that you had discussions with the Department for Work and Pensions. What advice did you receive from the DWP? Did you have any discussions with ministers, at Westminster or Holyrood, that led you to conclude that Scotland would suffer a £0.5 billion penalty were it to go for a local income tax?

Sir Peter Burt: To deal with the last question first, I say that we had no discussions with any minister, either at Holyrood or Westminster.

I will expand on my previous answer. The problem of the tax trap is significant. We have the extraordinarily unfortunate situation that, in certain circumstances, people who are just above the point of qualifying for benefits pay a 90 per cent tax charge. We have debated at considerable length to what extent the public at large should be required to subsidise individuals who have assets that are realisable, which is a moral question that is difficult to answer.

15:00

We discussed whether a local income tax would enable us to retain the council tax benefit that is paid currently. It is difficult to see the logic in the argument that an income tax that is, by definition, means tested would result in any increase in means-tested benefits. It comes down to a political question. If Holyrood can extract another £500 million from Westminster in lieu of the DWP subsidy, that is all well and good, but there is no logical reason why you should have a payment if you move to an income-tax system, which is, by definition, means-tested.

Fergus Ewing: That is one way of looking at it. However, another way of looking at it is the practical way. At the moment, we have the property-based council tax, and around £500 million is received from the Exchequer to fund council tax benefit. Of course, were Scotland to opt for a local income tax, England and Wales would still continue to receive their payment for council tax benefit from the Exchequer. If the £500 million payment was removed and we did not receive a balancing payment, that could be seen as being fiscally unfair—I would certainly see it as being unfair.

According to paragraph 140 on page 14 of your report, you discussed with the DWP whether the council tax benefit payments would, in effect, continue to be received from the Exchequer under your preferred system of a local property tax. Setting aside what you and I might think is the right or wrong view in theory, did you have discussions with DWP officials about whether, if the Scottish Executive were to go for a local income tax, there would continue to be a payment of some kind—balancing or otherwise—to reflect the historical money that Scotland has received in council tax benefit? If so, with whom were those discussions held?

Sir Peter Burt: We met DWP officials. I cannot remember the detail, but my vague recollection—my colleagues will correct me if I am wrong—is that the officials said that the issue, which was raised in a low-key way, was outwith their remit and that we would have to discuss it with the Treasury. Is that right?

Dr Lowe: Yes. Our discussions with the DWP and the Treasury were primarily about the practicalities of operating different tax options, rather than about their implications for the fiscal settlement between Westminster and Holyrood.

Fergus Ewing: So, did you discuss the matter with the Treasury, given that the DWP officials said that it was outwith their remit and, in effect, dodged the question?

Kenneth McKay: I welcome the chance to talk to my MSP, given that I come from Strathspey. It is nice to see you, Mr Ewing.

The local government finance review committee had a lot of discussion about what should happen. Incidentally, I do not recognise the figure of £511 million for council tax benefit in Scotland. The most recent figure that I have seen is £325 million—it might be a bit higher, but £511 million seems to be very high. From the start, the review committee took the view that the issue that Fergus Ewing raises was so political that it would not make a recommendation on it one way or the other. That was reflected in the discussion that we had with DWP officials, who also saw it as a political matter on which they could not comment. Ultimately, it will be a matter for dialogue between Scottish ministers, Treasury ministers and DWP ministers. That is the factual position.

To go back to Fergus Ewing's original question, council tax benefit considerations had no influence whatever on the principle of local income tax, which the committee considered as a system. The level of the tax would depend on how much one had to raise; it might be net or gross of council tax benefit. In paragraph 46 on page 98 of our report, there is an example that gives a net tax figure that takes into account retention in Scotland of council tax benefit, although the committee's overall position on the issue was neutral.

The Convener: On a point of information, the report records council tax benefit as amounting to £345 million in 2004-05, although obviously the figure will have risen since then.

Tommy Sheridan: It will not necessarily have risen since then, given employment levels.

The Convener: It is possible that the figure will have risen since 2004-05, when it was £345 million.

Fergus Ewing: I have seen a larger figure, but it may well be the case that it is not £511 million. Although we are talking about a substantial amount of money, I am more concerned about the principle of being able to raise it here in Scotland.

Sir Peter Burt: There is another principle, which has always struck me as being the height of absurdity. Whereas the DWP pays for bed-and-breakfast accommodation for homeless people, if a council provides them with low-cost housing, a charge is made on the council's budget. From the point of view of the individuals concerned, they would almost invariably be better off in low-cost housing and it would be cheaper, but because of the absurd way in which the budgets are drawn up, money cannot be shifted from one to the other. That is a long-standing bone of contention—I would be happy to tell you why some time.

Fergus Ewing: I accept that, but you are taking us into territory that I did not intend to ask about in the limited time I have available.

I am not an expert on the topic and have not spent two years studying it, but I understand that there is a statement of the rules that apply to the dealings between the Scottish Executive and the Treasury. I am told by others that, in July 2004, HM Treasury issued a statement of funding policy that provided specifically for adjustments to be made to departmental expenditure limits. On council tax benefit adjustments, it states:

"if, due to decisions by the Scottish Executive or the National Assembly for Wales or their respective local authorities, the costs of Council Tax Benefit subsidy paid to local authorities changes at a disproportionate rate (both higher or lower), relative to changes in England, then appropriate balancing adjustments are made to the relevant devolved administration's Departmental Expenditure Limit. In such cases the Government applies a formula to calculate balancing adjustments based on relative percentage changes in Council Tax".

That suggests that, under the Treasury rules, neutrality should not have been the position and that there should have been an assumption that whatever is the precise amount of council tax benefit, a balancing payment should be made to Scotland.

Sir Peter Burt: We included in our report figures both with and without council tax benefit. We considered—slightly tongue-in-cheek—whether we should up council tax hugely for people who live in houses in bands A, B and C because most people in those categories would get a much bigger subvention from the DWP. Consequently, instead of getting £345 million, we might get £700 million or £1 billion. However, we decided that that would probably have unexpected and unfortunate consequences. The Treasury's answer is that that is what the rules say and that it will adjust the amount accordingly, but it does not know how.

Fergus Ewing: Am I correct to say that the rules are clear in stating that Scotland should receive a balancing payment if a local income tax is introduced?

Sir Peter Burt: The word "appropriate" is used.

Kenneth McKay: I am afraid that we are at cross purposes. The question whether council tax benefit money that is presently paid to Scotland would be retained in Scotland if local income tax were to be introduced is very much a political question which, with respect, has nothing to do with the rules that Fergus Ewing is talking about. The rules were introduced to deal with a situation in which—to give a hypothetical example—the Scottish Executive halved the amount of grant to Scottish local authorities and, to compensate for that, local authorities had to triple or quadruple their council tax. That would have a massive

knock-on effect on the level of council tax benefit, which would have to be paid for by the DWP in Whitehall. The rules provide that, if that were to happen and the Scottish Parliament decided that it had financial implications for Whitehall, the Scottish budget would have to pay for it. The cost would not automatically be transferred across to Whitehall. That is what the rules are about.

Fergus Ewing: I know that the rules relate to rent payments, but it is not explicitly stated that they are restricted to such payments. The principle is stated in the rules and seems to be fairly logical.

I want finally to put your recommendations in context. I presume that one reason why the local government finance review committee decided against a local income tax, despite accepting that pensioners of the type to whom I referred would continue to be disadvantaged under its proposal, was that a local income tax would be too expensive. Of course, if Scotland was not penalised by losing a substantial sum of money, your headline figures would be lower, which you admit in part in paragraph 46. The figures would be substantially nearer the Chartered Institute of Public Finance and Accountancy estimate that a local income tax would require to be 3 to 3.5 per cent rather than twice that, which is your headline figure.

Sir Peter Burt: I thought that we had made it clear that we rejected local income tax on the ground that it did not meet our criteria as well as a local property tax did. The way it is raised is not particularly relevant, in our view.

Fergus Ewing: I am focusing on whether the burden of a local income tax is fair, which is how many of the people whom we represent will look at it. A local income tax of 7.9 per cent, which you postulate in paragraph 46, would seem to be unfair, but a local income tax at a rate of 3 or 4 per cent would seem to be affordable and fair—an entirely different proposition. Frankly, the public are more interested in affordability than in detail, interesting though it is in your report. Surely the burden of the tax must have been a relevant factor in your decision to dismiss a local income tax. Was it of no consequence?

Sir Peter Burt: At the introduction of the community charge, the amount of money that was raised was three quarters of the amount that is raised today as a percentage of local government expenditure rather than in cash terms, so we have seen an increase in the burden of council tax. If you decide that a local property tax at 0.94 per cent is unfair, you can subsidise it down to 0.3 per cent. In our view, it is still a better form of taxation than a local income tax.

Coming back to the question about the widow, I find it difficult to see why the rest of the population

should enable her to live in splendour in an expensive house that she will be able to pass on to her heirs and assignees. It is a question of morality.

Kenneth McKay: The committee had a recommendation to deal with the asset-rich but cash-poor group of pensioners, which is relatively small in relation to the total number of local taxpayers. I do not want to open a debate about the deferment scheme, but it is a possible way forward.

Fergus Ewing: I hope that that will be considered further, but I want to go back to the comment about widows living “in splendour”. With respect, Sir Peter, I do not think that that is a fair characterisation of many senior citizen widows or widowers. They may be living in large houses, but the idea that they are living in splendour in some sort of palace is not fair.

To conclude, it seems that the line of argument is that a tax on income has been rejected because you feel that there needs to be a tax on property for the reasons that you set out substantially in the executive summary. I want to take issue with one point of that summary—I have been told that it will be my last point.

Paragraph 12 states:

“Wealth, as well as income, should be taxed.”

I do not disagree with that, although I am not at the high-tax end of the political market. The premise may be that wealth is not taxed—I suppose that that must be a shorthand point. However, it is taxed by inheritance tax—a widow who lives “in splendour” or otherwise will find that her estate is subject to inheritance tax if she lives in an extremely valuable house—and capital gains tax also applies to wealth. Therefore, it is plainly wrong to say that there is no tax on property, as is perhaps implied in your executive summary, which sets out your basic reasoning for rejecting a local income tax.

15:15

Sir Peter Burt: I will ask John Baillie to reply, but I point out that there is no capital gains tax on a person's principal residence.

Fergus Ewing: I am talking about wealth. Paragraph 12 of your report says that

“Wealth, as well as income, should be taxed.”

My point is that wealth is taxed already. I presume that you would accept that, based on the reasons and examples that I have just given.

Professor Baillie: I cannot immediately bring to mind where it is in our report, but I think that something like 11 per cent of revenues that are raised from tax represent taxes on wealth, which

include the current council tax, business rates, stamp duty and inheritance tax. That 11 per cent compares with the figure that Janet Lowe mentioned earlier of something like 35 per cent of taxes on income. That clarifies what we are talking about.

Fergus Ewing: Perhaps that means that there is not enough wealth.

Professor Baillie: It means that the amount of tax on it is only a third of the amount of tax on income. The only other point that I would make is that, within that, there is a voluntary tax within the inheritance tax figures, because there are various quite proper ways of planning one's estate, if one is fortunate enough to be in that position.

Fergus Ewing: That is not so much the case for a widow or a widower.

Professor Baillie: Indeed.

Dr Lowe: We should add that we note somewhere in the report—although not in the executive summary—in rehearsing the arguments for the different taxes, that inheritance tax and, in some cases, capital gains tax apply. However, if there were not to be a property-based local income tax, there would be no annual tax on property, because inheritance tax is a one-off tax. That is one of the reasons why we rejected an income tax. We thought that there should continue to be an annual tax on the consumption of property, as well as a one-off tax.

Sir Peter Burt: There is one other very strong argument in favour of a property tax: such a tax tends to depress the value of property, which is eminently desirable for enabling people to get their feet on the property ladder and for ensuring that affordable housing continues to be available, particularly in rural areas of Scotland.

Paul Martin (Glasgow Springburn) (Lab): Recommendation 17 in your report is to pass responsibility for the distribution system to an independent body. What difficulties do you have with the current system, under which there is ministerial responsibility for that role?

Kenneth McKay: For my sins, I chaired the distribution committee for 10 years when I was a civil servant. This goes back to the point that Mr Rumbles made about keeping the system dynamic and under review.

Distribution is a massive exercise. The distribution committee, which is now called the three-year settlement group—it has changed its name since I left the Scottish Office—comprises representatives from the Convention of Scottish Local Authorities, individual local authorities and the Scottish Executive. Its members are not only administrators—they number researchers, statisticians and economists because the system

is so detailed that it needs all those people to review it constantly. That is why it would have been a massive exercise for the review committee to review the system, which would have necessitated all sorts of technical advisers and would have taken a long time.

The local government finance review committee found that the system was under so much pressure that there was a feeling that it had to be kept under regular review.

The message that the review committee heard from COSLA in particular was that the name of the game now is stability rather than keeping the system under regular review. To an extent, that represents acknowledgement of Orkney Islands Council's and Aberdeenshire Council's case, which was that the consensus could not be broken among the majority of authorities that the name of the game should be stability, rather than searching constantly for the best distribution formula. One local authority proposed an independent body. With the majority view in mind, the review committee examined international experience: there is quite a lot of experience from Australia, Canada and the United States of distribution being done by independent bodies. Such a system tries to take distribution away from the people who have vested interests and to make it as objective as possible. That was the thinking.

Paul Martin: That is an important part of the process. You are saying that a minister and COSLA have vested interests. I note that you make the point about what COSLA said, but COSLA also said that it does not want an unelected quango to be established. You conveniently set up the recommendation by saying that COSLA said something, but COSLA also said in its response to your inquiry that it did not want an independent body.

What evidence do you have that a minister has taken a decision on the basis of having a vested interest? How did you reach such a strong recommendation of saying to Tom McCabe—sorry, Tom—or any other minister that you do not want them to be involved in the decision and that you want to establish an unelected and unaccountable quango?

Kenneth McKay: I do not think that anything in the report criticises Tom McCabe or any other minister. I was trying to say that because any redistribution or any change in the formula produces winners and losers, people are happier to have stability. The trouble is that that sterilises the system and does not allow anyone—such as Aberdeenshire Council—to ask for a review. We noted what COSLA said about a quango, but the alternative was simply to bring an independent element into the existing machinery to try to act almost as non-executive directors do.

Sir Peter Burt: Actually, we said merely that that should be considered. I return to Mr Rumbles's point. Some local authorities feel that they do not have a fair shake, but I am not quite sure whether having independent members would make the situation easier. I return to my non-flippant comment: the fact that everyone seems to be more or less similarly unhappy with the aggregate external finance suggests that it works pretty well.

Paul Martin: So you accept that, even under an unelected quango, Aberdeen City Council and Glasgow City Council could still say that they have difficulties with the settlement. I have never known a council leader to produce a headline saying, "I am delighted with the settlement I've received." We will never achieve the goal of any council giving evidence that they are delighted with the current system, so the proposal that there should be an independent body—

Sir Peter Burt: No—the report just says that an independent body should be considered as a possibility.

Paul Martin: So, such a body it is to be considered only as a possibility.

Sir Peter Burt: That is what we recommend.

Paul Martin: Another possibility that you have thrown in concerns collecting water rates with council tax—that was part of your remit. You recommend considering whether councils should continue to have statutory responsibility for collecting water rates. Why should we implement such a recommendation—which could incur further expenditure—rather than make it clearer to council tax payers under the current system what they are expected to pay in water rates? Why did you make that recommendation?

Sir Peter Burt: The problem is that it is unclear to the payer of water and sewerage rates that the council collects those payments purely as an administrative convenience. The other disadvantage is that the council has its statutory powers, which are far greater than those that apply to any other utility bills. That is wrong.

I think that 40 per cent of Glasgow's council tax bills goes to cover the collection of water and sewerage charges—I might have the proportion wrong, but it is a big number. Whether those charges should be collected by councils or outsourced to a third party can be discussed, but we strongly make the point that if they continue to be collected by councils, the statutory requirement on local authorities to collect them alongside council tax should be removed.

Paul Martin: If there is an increase in water charges as a result of the introduction of the new system that you recommend, will taxpayers say,

"Fantastic, my invoice is much clearer, even though I need to pay out much more money. I welcome the fact that councils no longer have a statutory responsibility to collect water charges"? Surely taxpayers want to pay as little as possible for all their utility bills. If the council can carry out its functions in that regard, why should it not do so?

Dr Lowe: The approach would not necessarily cost more. We agree that any system that has higher administrative costs needs to be questioned. Our primary concern is that it should be clear to taxpayers what their liabilities are and whom they pay. We found evidence that taxpayers currently do not differentiate between their council tax payments and their water and sewerage payments, which of course eventually go to Scottish Water, so we advocated that water and sewerage charges be collected separately. It is perfectly possible that Scottish Water could collect the charges separately at no additional cost, or that Scottish Water might continue to subcontract collection to local authorities at no additional cost. The issue is clarity, but we would not want that necessarily to lead to extra expense. There is no reason why collection could not be as efficient as it currently is.

Sir Peter Burt: One council said that it would like to collect water and sewerage charges for many councils. It thought that it could do so efficiently.

Dr Lowe: Different ways of collecting the charges could achieve our objective.

Sir Peter Burt: We do not recommend that collection be done by someone else; we recommend that the statutory requirement be removed.

Paul Martin: You say in your report that it is not clear whether Scottish Water's collecting the charges independently would cost the same or less than collection by councils. For clarity, will you confirm that if Scottish Water said that additional funds would be required, councils could continue to collect the charges?

Sir Peter Burt: That would be fine. All that we recommend is that we break the link with statutory powers.

Kenneth McKay: On cost, we are not starting with a clean sheet of paper. Scottish Water already has a huge billing operation because it bills, for example, business customers, people who have septic tanks and people with special arrangements. Scottish Water would have to expand its existing billing system rather than start from scratch.

I refer Paul Martin to paragraph 26 of the report, which says that Scottish Water already pays

administration fees to local authorities. When we asked Scottish Water how much collection would cost, it gave us a range of costs, the bottom end of which is lower than the amount that Scottish Water currently pays to local authorities. The top end of the range is certainly higher than the £41 million that Scottish Water currently pays, but that figure is about in the middle of the range. Collection by Scottish Water could be cheaper than the current arrangement.

Sir Peter Burt: Whether the charges are collected by Scottish Water or by someone else—we hope that it would be done by whoever could do the job most efficiently—councils should not have a statutory requirement to collect water charges.

Dr Sylvia Jackson (Stirling) (Lab): Fergus Ewing talked about people who are property rich but income poor. You said that an effect of a local property tax might be to bring down prices, but an elderly person's property might be in a hot spot, such as the centre of Edinburgh. Given the accessibility of services in the area, the person might find it easier to live there than to move to a slightly cheaper area, although their house or flat was expensive when compared with properties elsewhere. Will you comment on that? Could you also say a bit more about deferment? You started to talk about that, but we did not get much detail.

15:30

Sir Peter Burt: If I may, I will divide my answer in two. The first question concerned the extent to which it is equitable that people who live in relatively expensive properties—the shorthand that is often used is the asset rich, income poor—should be subsidised by the population at large. We discussed the subject ad nauseam. Frankly, it comes down to a question of personal preference—it is not even one of morality. The answer depends whether we consider that it is right for elderly people to continue to enjoy living in their own homes—where they may have lived for many years—or whether society is entitled to say, "If you can't afford to stay there, you have to move." The question of where the line is drawn is personal. I suspect that we would find half a dozen divergent views on the subject round the table. If Marie Antoinette were here, she might say, "Let them eat cake, but they will have to move". We would not go that far.

I turn to the deferment scheme. There is no reason why people should not be able to defer taxes. In Denmark, people can defer as much or as little as they like. We have equity release schemes whereby someone can release the equity in their house, but that provision tends to be a fairly blunt instrument. Someone can borrow a large sum and top up their income in that way, but

all that they may want to do is to postpone the burden of local property tax.

For the sake of argument, let us say that someone lives in a house that is worth £400,000. Let us also assume that the 1 per cent figure is appropriate and that their income is just above the level or along the lines that Mr Ewing suggested—I cannot remember the exact figure, but it was in the region of £15,000 to £16,000. Under those circumstances, it is entirely right that someone should be able to say that they do not want to pay their council tax and that they want to postpone it. If the provision was structured in such a way that a council could get its money from another source, the bill would simply roll up until such time as the person died or sold the house. Such a provision would be desirable in both cases—for the person and the council.

Sadly, an elderly widow or widower may have only two alternatives: to postpone the payment of council tax or to heat their house. Which would we rather that they do? There are tremendous opportunities for something to be done and for that to be done through councils. Most people probably find it easier to talk to their council than to deal with a financial services company.

Dr Lowe: We gave considerable consideration to pensioners. An indication of how seriously we took the issue is that we devoted a whole chapter of the report to pensioners. On balance, we came to the conclusion that we should not distinguish between low-income pensioner households and other low-income households. The evidence suggested that, in general, pensioners are not more likely to live in a larger house or to be on a low income. There are lots of other categories of the population that have low incomes. We did not see why a pensioner with a given income, in a given house, should be treated more favourably than a working-age household with the same income in the same type of house. There seemed to be no justification for that. After all, there is a council tax benefit system that deals with low income.

Even then, there was such a strong case for the type of people that you have mentioned that we did not stop there. That is why we looked long and hard for a solution for low-income pensioner households—those that are just above the council tax benefit threshold. We thought that the deferment scheme was the best option, because it would provide assistance to that category of household without departing from the principle that we should not distinguish between low-income households. Again, unless other money was made available, extra support for pensioner households would have to come from the tax that was paid by other households. We calculated that giving £100 to pensioner households would cost £45 for every

other household, some of which have incomes that are just as low as those in pensioner households and are experiencing just as much difficulty.

That is my position: that we had to consider ability to pay generally, but that even then the deferment scheme would be of particular assistance to pensioner households, although it could obviously be extended to others.

Professor Baillie: The evidence from Help the Aged was very convincing about the problems that some elderly people face. One of the issues was that of older people living in the family home once the family had all gone off to do their own things and start their own families. After a bit of evaluation, we were persuaded quite readily of Help the Aged's argument, which was that, for the elderly person, staying in the family home promotes a sense of well-being and a sense of identity. We recognised that as quite a significant factor.

However, it is not all just about recognising the quality of that argument per se. The other aspect is that such individuals may well reduce the burden on the community by staying in the family home, rather than moving to a smaller house or going into care. That was another argument that Help the Aged advanced to us. If a person is in the family home, they have a sense of well-being and their health might be better. Again, we took that point.

Sir Peter Burt: In a sense, that point was turned round by Help the Aged, which said that forcing elderly people to move to a smaller house or residential accommodation increases the cost to the community.

David Milne (Local Government Finance Review Committee): I can offer a little bit of contextual information. The committee considered long and hard the scale of the issue of households, particularly pensioner households, which, to use the jargon, are asset rich and cash poor. The committee may find table 12.4 quite interesting. It shows that, for instance, for households among the lowest three income deciles, around 20,000 have homes in council tax bands F to H, compared with close to 500,000 households in bands A and B. Figures 16.2 and 16.3 suggest that the distribution of households does not differ a great deal between working households and pensioner households. Clearly, as other members have said, the committee was deeply concerned about the plight of pensioner households, but in that context it was important to think about ways in which their issues could be addressed through special means rather than by building an entire system around their needs.

Dr Jackson: I am pleased that you said that. When you answered Fergus Ewing's question, you seemed to indicate that the groups we are discussing were living in very big houses and were very wealthy. I shall consider all that—I know that you have considered it in detail.

What do you consider would be the impact on the Scottish economy of changing the system of local taxation from a property tax to an income-based tax?

Sir Peter Burt: You will gather from our reply to Mr Sheridan that we do not accept that it would be as positive as he thinks it would be. It depends very much on the level at which the income tax is pitched. In today's world, any increase in income tax will have a greater economic disadvantage than even a relatively high property tax impost.

Mike Rumbles: Why?

Dr Jackson: Excuse me—

The Convener: Through the chair, please. Sylvia Jackson may—

Mike Rumbles: Through the chair, then: why?

The Convener: Behave yourself, Mike.

Sir Peter Burt: I suspect that Dr Jackson was about to ask that question anyway.

The economic world still considers income tax to be a significant factor in the location of employment opportunities. We could produce arguments both ways. Ireland has been extremely successful in having low corporation tax and relatively high personal tax. The other classic example has always been Switzerland, which has done extraordinarily well out of having relatively low rates of personal income tax. The experience of a number of the new entrants to the European Union, particularly the Baltic states, suggests that there are considerable advantages for countries on the periphery in having low rates of personal tax.

It is difficult to be categorical, but I have the feeling that people focus on personal income tax in terms of inward investment to an extent that does not necessarily make sense in purely economic terms. There must be some compensation. In the case of Ireland, that is a very low rate of corporation tax.

Professor Baillie: This is probably a statement of the obvious. If, say—and to be silly for a moment—we were all paying income tax at a rate of 100 per cent, there would be no incentive to work. It is a question of degree. As we come down the taxation scale to the rates that we actually have, the disincentive comes down, to the point at which we all work. If other additional bits of income tax are added to the existing regime, a number of people will say that enough is enough. That is the

margin we are discussing. We do not know how elastic or inelastic the position is. We think that there would be a disincentive to work should income tax be added to—that is almost a truism.

The Convener: Many of the questions that I wanted to ask have been covered by colleagues. A graph on page 139 shows the relative progressivity of the proposed local property tax and the council tax. Does the percentage of household income that is shown as being paid towards each tax take account of council tax benefit?

Dr Lowe: That is an extract from the Stirling University modelling report, which uses an equivalised net income, taking account of all income and expenditure incurred by a household.

Sir Peter Burt: It takes account of council tax benefit and any other benefits that households receive.

Dr Lowe: It shows the proportion of the household's disposable income that is taken by council tax or local property tax. Is that right, David?

15:45

David Milne: That is our understanding. Professor David Bell, who led the modelling team, had a challenge with the figure for decile 1, which is somewhat higher than the deciles around it. The figures seem to be based on people with a regular income, who may not necessarily have qualified for council tax benefit—at least, over a long duration. In answer to your direct question, our understanding is that council tax benefit is included.

The Convener: You are saying that it is included as an income for the person; obviously, they also have expenditure. However, I suspect that most people who receive council tax benefit in full do not perceive that as an income; they perceive it as paying their council tax, and they would feel that they do not have an outgoing in terms of council tax if it is being paid in full.

David Milne: I think that it is treated as a reduction of their expenditure.

Dr Lowe: It is treated as a reduction of expenditure. That is why the term "equivalised net income" is used—the model balances off households with different types of income and expenditure, so it is a fair comparison.

The Convener: My second point relates to the same graph. Part of your pitch for the local property tax is that you believe it would be more progressive than the council tax. However, it seems that there is not a great variation in the shape of the graph between council tax and the

local property tax. Is that just my perception from looking visually at the graph?

Sir Peter Burt: No, you are quite right. From a visual point of view, the variation does not appear to be significant. However, taking Janet Lowe's point and ignoring the first income decile—because that is based on people who are in temporary unemployment and who therefore have not yet got council tax benefit—the real line is probably further down the graph. Those equalised income figures come from the family income survey, and in the top decile of income we start to see a significant increase in the amount of tax that they are paying, even though it remains relatively low as a percentage of the tax.

Dr Lowe: The graph illustrates that the majority of people would be better off or no worse off with a local property tax, which was one of the main conclusions of our study. Such a tax increases progressivity for the majority of people—or it does not reduce it.

The Convener: However, a significant number of the people who would be no worse off would presumably be no worse off because their council tax or local property tax would be paid by the benefits system, not because of the change in the system.

David Milne: There is a flat line of about 20 per cent of people who are no worse off, and we understand that roughly 18 per cent of households are on full council tax benefit, so they do not pay council tax.

The Convener: I see that you recommend a more frequent revaluation of property, but I think that your aspiration is for revaluation every year. Have you calculated the cost of that?

Dr Lowe: Yes, we have.

Sir Peter Burt: It is in the report.

The Convener: I must have missed that; I am sorry.

Sir Peter Burt: It is quite okay. I cannot remember where the figure is or what it is.

Dr Lowe: The initial cost is £12 million.

Sir Peter Burt: Then, I think, it is about £6 million a year.

Professor Baillie: It is just over £6 million a year, compared with the council tax system as we have it, which costs £4.7 million.

The Convener: It seems likely that, after the first valuation under such a scheme, a significant percentage of people would appeal against the valuation of their property. What assumptions have you made about the rate of appeals?

Professor Baillie: As you would probably expect, we discussed that with the assessors.

They gave an interesting answer that stands up to scrutiny. They said that, if the banding system were removed, the monetary benefit in appealing would be less because it would not be a matter of being over or under a threshold, as would be the case with appeals under a banding system. Given the fact that the financial benefit might be less, there would not be the same incentive to appeal.

On top of that, the assessors suggested several things that could be done. Provisional notification could be given to each householder, to allow them to chew on it and see what they thought. They could also make informal queries and have things clarified. In addition, all the property tax values could be published on a website so that people could compare and contrast their property tax value with the values on neighbours' properties and similar properties. All three of those steps were designed to take at least some of the angst out of any appeals process and reduce the volume of appeals. To me—my colleagues can speak for themselves—the assessors did not seem unduly perturbed by the prospect of a massive increase in the number of appeals. They did not think that there would be such an increase.

The Convener: Obviously we are speculating, because you would not know how many appeals there would be until the system was put into practice.

Professor Baillie: That is right. There is little available evidence to demonstrate how many appeals there would be.

Sir Peter Burt: The trouble with banding is the cliff-edge effect. If a band breaks at £300,000, someone whose property is valued at £290,000 pays tax at one level and someone whose property is valued at £310,000 pays an awful lot more; therefore, the latter will appeal and argue that their property should be valued at £290,000. By contrast, if the difference in valuation was £20,000 and the tax rate was 0.5 per cent—a difference of £100—they would be much less likely to fight the decision.

The Convener: I have another question, which I meant to ask earlier when I asked about council tax benefit. It relates to the questions that Fergus Ewing asked about council tax benefit and whether it would be right for that amount of money to be diverted to the Executive in order to mitigate the cost of a local income tax. The money that is in the council tax benefit system is there primarily to assist people who are on low incomes, whereas Mr Ewing suggested that the money could be used to assist people on a broad range of incomes—including people on high incomes—in mitigating their tax expenditure. Do you agree that that would not be a logical use of money that is currently given to the benefits system?

Sir Peter Burt: If we moved to an income tax system with allowances, people on low incomes would not pay the tax. If more money was coming into the system, there would be more money for other uses—you could use it to reduce the level of taxation to ensure that people in Aberdeenshire were happier, or to do I do not know what.

Dr Lowe: I am not sure whether this is the point of the question but, as far as we understand it, council tax benefit would apply to local property tax on very much the same basis as it currently applies to council tax. We think that that is wholly appropriate.

The Convener: I noted that in your report. I was discussing Mr Ewing's point.

Kenneth McKay: As I have said, the committee took a neutral view on what should happen to that money. A lot of the confusion in the debate arises from the fact that council tax benefit is presented as a grant to Scottish local authorities, although it is nothing of the sort. It is a payment to a lot of individuals who are on low incomes, which happens to be set against their council tax. The DWP pays the money to offset the cost of that to the local authorities. It can be presented as local authority grant, but it is not really that. It is a payment to a lot of individuals whose circumstances can change.

The Convener: My next questions relate to the potential impacts of a local income tax. You raise the issue of fiscal flight. In paragraph 104, you state that there is

“evidence of income-rich and wealthy people moving from higher-taxing to lower-taxing states in the United States”.

Given the fact that the United States is comparable to Britain in the sense that everyone in Britain speaks the same language and has transferable skills, do you envisage that it would be possible for people in the United Kingdom to uproot and move household if there were a significant marginal difference in taxation between Scotland and England?

Sir Peter Burt: There is undoubtedly a level of taxation at which people would move. Whether that level is 5, 15, 25 or 50 per cent, we just do not know. It would depend on where they lived.

Professor Baillie: It is an individual choice, I guess. Prior to coming here, we were discussing whether someone who was particularly wealthy and lived in a nice part of Scotland would move if there were a 1 or 2 per cent increase in the tax rate rather than paying the premium. That comes back to what I said earlier about the disincentive to work. There are some people who would be influenced by that disincentive. However, we have no comprehensive objective evidence about how significant that margin is.

The only thing that came through in our research—although I suppose that it is obvious—is that people are more likely to move if they can move somewhere that has the same language and a similar culture. People might want to debate whether England is such a place.

Dr Lowe: We considered the issue in relation to the local property tax, too. There is a broad relationship between income and the size of property. Given that our proposals would remove the cap on the taxation of property, it is arguable that local property tax might create an incentive for fiscal flight. Although we are advocating the local property tax, arguments can be made—

The Convener: You are anticipating my next question.

Dr Lowe: If a taxation system is made more progressive, there is always the possibility that those who are asked to pay more will seek to limit their liabilities by moving.

The Convener: I was going to ask about the line in the report that says that the phenomenon of rich people moving from higher-taxing to lower-taxing states in the United States of America had been found in relation to inheritance and property taxes as well as income tax, but you have answered that.

You set out a series of rates for local income tax, depending on the basis on which the tax is raised. The most frequently quoted rate is that of 6.5p in the pound to replace the council tax if the local income tax were applied to basic and higher rate income and only to earned income.

Do you accept some of the observations that ministers have made about the fact that there would be a substantial gap in the income of local authorities if a cap were to be applied to the local income tax—I think that a figure of 3p in the pound has been mentioned—and that that shortfall would have to be made up from somewhere in the public finances, whether it be from Executive resources or local government resources?

Sir Peter Burt: If less money is raised, there will be a gap. Conversely, if more money is raised, the aggregate external finance could be reduced. If the tax were levied at 15 or 20 per cent, quite a lot of money would be generated and if it were levied at 3 per cent, there would be less.

Dr Lowe: Our work was based on the existing level of tax that is raised. Our remit was not to determine the level of tax that should be raised, but to determine what the form of taxation should be. At all times, we assumed that the same amount would continue to be raised. That is why we have produced the figures that are before you. Clearly, if one wanted to raise a different amount, one could produce a different set of figures.

Sir Peter Burt: If one wanted to redistribute income, one would come up with a totally different structure.

Professor Baillie: A point that has not yet been made is that local authorities told us that they need stability and predictability about the amount of income that they are able to raise. The existing council tax system, without any changes, provides that stability and predictability, as does the local property tax that we propose.

A move to local income tax would be subject to the vagaries of the economy in the local area. A recent example of why that might be a problem is the rather tragic case of NCR in Dundee. If Dundee had a local income tax, much of the revenue that would have come from that income tax would have to be found from other sources.

Peter Daniels: Even on the lowest of the three estimates that we gave, which assumes that local income tax would be applied to earned income at basic and higher rate and to unearned income—and we think that it would be quite difficult to achieve a local income tax system that included unearned income—the rate would be 5.7 per cent. That is still higher than the 3 per cent figure on which you questioned us.

16:00

The Convener: I think that you also assumed in that calculation that earned income at the starting rate would be included. Paragraph 47 shows that the family of two adults earning £20,000 would pay more under the 5.7 per cent rate than they would pay under the 6.5 per cent rate, because the first would apply to income earned at the starting rate as well.

Sir Peter Burt: Yes.

The Convener: I presume that the 6.5 per cent rate would be an average across Scotland. Did you estimate what the variance would be between the lowest and highest local income tax rates?

Professor Baillie: No; we did not do that for several reasons, one of which is that funding from central Government provides the bulk of local authorities' expenditure.

Dr Lowe: The tax base would change from the current one, so local authorities would have to make their own calculations.

The Convener: Some people have made the case that there has been an impact on cities from people moving outwith them because of the relative council tax rates. Would fiscal flight from council areas that had higher local income tax rates than other nearby areas also be possible?

Sir Peter Burt: It would depend on the differential.

Professor Baillie: That point was made by my organisation, the Institute of Chartered Accountants of Scotland. There are issues with staff living outside but commuting into areas to work and companies with a high turnover of staff or casual or seasonal workers. It is not that the issues cannot be resolved, but they are significant and expense is involved.

Sir Peter Burt: Tracking people is more expensive than tracking houses. Houses do not move.

The Convener: I promise that this will be my final question. In the course of considering Tommy Sheridan's Council Tax Abolition and Service Tax Introduction (Scotland) Bill, we received evidence from HM Revenue and Customs indicating that to implement Mr Sheridan's proposals would require primary legislation at Westminster and that the systems and legislation required would take several years to develop. Your report seems to suggest that, even if it was not absolutely essential, it would be desirable to give HMRC a legislative underpinning to collect a local income tax on behalf of Scotland. You also seem to suggest that implementation would take considerably longer than the two years that some proponents of a local income tax suggest. Is that correct?

Sir Peter Burt: We are not sure about the legislation requirement—you can get evidence to argue both ways—but I think that implementation would take some time.

Dr Lowe: Our estimate is six years.

Professor Baillie: We received estimates that the legislation at Holyrood alone would take three to four years, but you may be better placed to judge that than we are.

The Convener: Thank you. I know that your report received a rough ride in the media from several sources, but it has added to the considerable debate on the form of local government taxation that Scotland should have. Your time on the committee was not a waste.

Thank you for giving your evidence; the session has been useful.

Sir Peter Burt: Thank you for giving us the time; it has been very useful.

Subordinate Legislation

Local Government (Discretionary Payments and Injury Benefits) (Scotland) Amendment Regulations 2006 (SSI 2006/609)

16:04

The Convener: No members have raised any points about the regulations, the Subordinate Legislation Committee has not drawn them to the committee's attention, and no motion to annul has been lodged. Can I confirm that we have nothing to report?

Members *indicated agreement.*

Transposition and Implementation of European Directives Inquiry

16:05

The Convener: The next item is consideration of a letter from the convener of the European and External Relations Committee on its inquiry into the transposition and implementation of European directives in Scotland. The letter seeks our views on the report that Jim Wallace compiled as reporter to the European and External Relations Committee's inquiry. In particular, I refer members to paragraphs 90 to 96 of the report.

The European and External Relations Committee has requested a response by Friday 26 January. Do members wish me to express any views in a letter to that committee?

David McLetchie: It is a good report and Jim Wallace and Alan Page should be commended for their work on the inquiry. Their analysis of the directives that they took as examples and the way in which they were implemented in Scotland and other parts of the UK is good.

I am particularly interested in the point that is made about the regulations on fish sellers and buyers. The report states:

"The Community obligations are in the form of regulations which are 'directly applicable' in national law."

It is not obvious to me—or indeed to the authors of the report—why there was a need to transpose the EU regulations, which were already a matter of law in this country. Why did we have to embellish them, in a sense, with another set of regulations? The situation can be compared with what applies in the case of a directive, where there is not the same direct applicability. Perhaps the Executive should refrain from passing sets of regulations when other regulations are already in place. We seem to pile regulations on top of regulations.

Regulations were required to implement the directive on waste incineration. However, the report states that, although the regulations in Scotland and those in England are basically the same, there was a difference in interpretation between the relevant Scottish Executive department—the Environment and Rural Affairs Department, presumably—and the Department for Environment, Food and Rural Affairs in England. Given the desire for a level playing field for business, which the report notes, it does not seem desirable to have a fundamental difference in interpretation. The Scottish Executive should be questioned further on that point.

Instead of a raft of regulations, Ireland, with remarkable brevity, produced a simple one-liner that says, "You will comply with the requirements of the directive." Instead of having a lot of regulations on waste incineration, the matter is dealt with through conditions that are attached to licences. I would be interested to know—and perhaps the European and External Relations Committee would like to know—whether the conditions that are attached to licences are as comprehensive as our regulations. Which are more onerous—our regulations or their conditions?

It seems that we rushed to implement the directive on private water supplies in Scotland but that other parts of the UK never got round to doing so. Notwithstanding the fact that Professor Page could not find any English regulations that are equivalent to the ones that we introduced, the UK was found not to have failed to implement the directive in England in proceedings that were brought by the Commission. That leads me to wonder why we rushed to implement the directive in the first place.

The Convener: I do not want to go into those issues in detail in a letter because they are outwith our remit as the Local Government and Transport Committee, but we can highlight in a letter some of the general points that David McLetchie makes.

One difference between the Scottish Parliament and the Westminster Parliament is that the Scotland Act 1998 requires us to comply with EU regulations and to implement EU laws. That may be a factor in causing Scotland to respond more promptly than other parts of the UK to new directives and sets of regulations. We can raise that issue.

Ms Watt: The report indicates that the main concern is that enforcement, rather than implementation, can vary throughout the EU. Another theme that I would like to highlight is the need for more consultation between the UK Government and the Scottish Executive on enforcement and on the level of government at which enforcement is required.

The Convener: I would like us to raise the issue of the way in which the Parliament engages with the European Union on new directives and regulations that are being considered, as there is probably still a gap in that area. One recommendation that we could make for after May is for the Parliament to put in place structures to encourage subject committees to engage more directly with the European Union or the UK Government, which represents Scotland's interests, than they have in the past.

The European and External Relations Committee regularly circulates documents that are

being considered at European level. The Conveners Group or the Parliamentary Bureau may want to consider referring significant issues that are being debated in Europe to subject committees, so that they can be worked on extensively and Scotland's interests can be taken in account properly when new directives are implemented.

Tommy Sheridan: I am sorry if I am speaking out of turn, but I refer members to the section of the report on public contracts. Is it possible for us to seek clarity, from Jim Wallace or anyone else to whom we respond, on what is required of companies that receive public contracts? Are they subject to statable and identifiable employment conditions? As a trade unionist, I am very concerned that we should award contracts worth billions of pounds to carry out public works and to provide public services to companies that have a good employment record, recognise trade unions and so on. I am sure that you share that concern, convener.

The Convener: You make an important point, but it might be appropriate to raise the issue in parliamentary questions to the Executive rather than to seek answers from Jim Wallace in his role as reporter for the European and External Relations Committee.

Tommy Sheridan: I was just trying to find a short cut.

The Convener: Jim Wallace no longer has banks of civil servants to help him get answers for you. We will draft a letter that takes account of the points that have been made.

European Commission Work Programme

16:14

The Convener: The final item on our agenda is consideration of a further letter from the convener of the European and External Relations Committee in relation to the European Commission's work programme. The committee is seeking our views on which policy initiatives have the greatest potential impact in Scotland. Pages 8 to 12 of paper LGT/S2/07/01/5 highlight some of the issues that are most relevant to the Local Government and Transport Committee.

There are two questions. First, are there issues with which we could be involved before May? Secondly, are there issues on which we could make an input after May? Do members wish to put some time aside in the last few weeks of the session so that we can make an input on any of the issues that are raised in the clerk's paper?

16:15

David McLetchie: Referring to the subjects that have been corralled under our committee's name in that paper, I think that, given the topicality and interest of the issue, the implications of the directive on public-private partnership concessions, which I note is scheduled to be adopted in October, should be looked into. It is not entirely clear to me from the summary in our paper, but the issue is clearly important, given the scale of the contracts concerned.

The Convener: I have been advised by Martin Verity that we are talking about our recommendations for work to be carried out by the European and External Relations Committee rather than about work that we will conduct.

David McLetchie: In that case, I recommend that the European and External Relations Committee examine that directive, even if we do not.

When I read the paper, I found the hierarchy of regulation and consultation quite interesting. This is the first time that I have seen it put so explicitly in terms of communications, green papers, white papers, directives, regulations and so on. Perhaps that goes back to your earlier comments, convener.

When it comes to having an input into the evolution of policy, it would seem to be important to get in at the communication and green paper stage. By the time we get to the directive stage, as important as that is, we have probably had it with respect to having an influence on what actually emerges. By that time, the provisions will have

gone round the houses in the 27 member states, no doubt with all manner of compromises agreed and positions adopted, and the outcome will have become rather a foregone conclusion. To me, that suggests that we need to start at the beginning of the process, rather than at the end.

The Convener: Absolutely. We will draft an appropriate letter to the convener of the European and External Relations Committee.

I thank members for their attendance.

Meeting closed at 16:17.

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