# LOCAL GOVERNMENT COMMITTEE

Tuesday 27 February 2001
(*Afternoon*)

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## LOCAL GOVERNMENT COMMITTEE
**7th Meeting 2001, Session 1**

**CONVENER**

*Trish Godman (West Renfrewshire) (Lab)

**DEPUTY CONVENER**

*Dr Sylvia Jackson (Stirling) (Lab)

**COMMITTEE MEMBERS**

*Mr Kenneth Gibson (Glasgow) (SNP)
*Mr Keith Harding (Mid Scotland and Fife) (Con)
Mr Michael McMahon (Hamilton North and Bellshill) (Lab)
*Mr Gil Paterson (Central Scotland) (SNP)
Iain Smith (North-East Fife) (LD)

*attended

**WITNESSES**

Oonagh Aitken (Convention of Scottish Local Authorities)
Nikki Brown (Scottish Executive Development Department)
Christie Smith (Scottish Executive Development Department)
Norie Williamson (Convention of Scottish Local Authorities)

**CLERK TO THE COMMITTEE**

Eugene Windsor

**SENIOR ASSISTANT CLERK**

Irene Fleming

**ASSISTANT CLERKS**

Craig Harper
Neil Stewart

**LOCATION**

The Chamber

# Scottish Parliament

## Local Government Committee

*Tuesday 27 February 2001*

(*Afternoon*)

[THE CONVENER *opened the meeting at 14:02*]

## Local Government Finance Inquiry

**The Convener (Trish Godman):** Good afternoon, comrades. We have apologies from Iain Smith and Michael McMahon. The rest of us seem to have made it through the snow.

We have two important sessions this afternoon. The first is with officials from the Scottish Executive. This is the start of our review of local government finance, which will take us some time, so the sooner we get started the better. Rita Hale, the committee adviser, cannot be here because there are no planes from down south. If she had got up here, she would not have got back, so she decided that it was better to stay where she was.

I introduce once again Christie Smith, who is the head of local government finance, and Nikki Brown, who is the head of grant and non-domestic rates distribution branch, from the Scottish Executive. You have given us a paper, which we all have. Do you want to say a few words, Christie, before I open up the meeting for questions?

**Christie Smith (Scottish Executive Development Department):** I will keep my remarks brief, convener. We are grateful for the invitation to appear before the committee; we would be happy to be of assistance with anything relating to the committee's inquiry.

Our submission summarises the reforms to the local government finance system that have taken place over the past few months and makes brief reference to work that we are continuing to pursue. On the whole, the recent reforms have been well received. I would be happy to answer any questions on those.

I will concentrate on the work that we are still doing and the things that we are hoping to achieve. We would like to create a better system for supporting local authority capital investment. We have increased capital allocations by about 40 per cent over the next few years. That may take some heat out of local authority frustration about the levels of capital consent. However, we are not sure that the current system is right. We would like to move to a system under which local authorities decide their own level of capital investment, taking account of local circumstances and the total resources available to them. A fair amount of policy development work is needed for us to develop such a system. We have a set up a working group with the Convention of Scottish Local Authorities and the Chartered Institute of Public Finance and Accounting Scotland to identify the indicators that councils could use to regulate their capital investment. We have begun discussions with the Treasury about the public expenditure control implications of that. We are hoping to have a better idea of the way forward by summer 2001.

We have had some constructive discussions with COSLA about ring fencing and the scope for agreeing outcomes between the Executive and local councils. Early in the next financial year, we hope to have put in place a series of pilot local outcome agreements. The aim of those is to find a mechanism to marry national priorities with local flexibility. The themes that we will pursue in the pilots include community care, education, children's services and services to deprived neighbourhoods.

As the committee will know, we have some unfinished business in relation to business rates and the small business sector. We have just published a consultation paper including proposals for a relief scheme for small businesses. We are seeking comments on that by 18 May and we aim to be in a position to introduce a scheme by April 2002.

I will not prolong my opening remarks, except to say that we would be happy to take any questions.

**The Convener:** Thank you. I will begin with a general question. When Jack McConnell came before the committee on 21 September 1999, he said that at that point he did not consider an independent review of local government finance to be a good idea. What is the Executive's current opinion on the balance between central and local government funding in Scotland and the revenue grant distribution system? Are you still of the view that there is no need for an independent review of local government finance, given that, as COSLA and the committee have recognised, you have made substantial moves on some of the other issues that we have raised? You addressed some of those in your paper, but we believe that there is still quite a lot of work to be done.

**Christie Smith:** On an independent review, I can only reflect the views of ministers—it is a policy matter for them. When Mr MacKay was before the committee late last year, he said that he thought that we were achieving a lot with the reforms that were already under way. He also said that at that stage he did not see an immediate case for an independent review, but that we would take stock when the reforms had gone through. He said that he would be sensitive to the views of the committee on that. That is the formal position.

**The Convener:** What about the balance between central and local funding?

**Christie Smith:** At the moment, ministers have no plans to change that balance, although I expect that they would be open to recommendations from the committee.

Before coming here, I read COSLA's paper, which made various points about that issue. I tried to get hold of the arguments for and against the percentages of funding that should be raised locally and centrally. The current balance is the product not of a decision that the percentage should be this or that, but of a series of other decisions. To change that balance, some policy decisions would have to be taken—to reduce Government grant, to increase council tax substantially, to transfer services between the two tiers of government or to localise the business rate as COSLA's paper suggests. There may be a case for those actions, but we have not hitherto thought that the justification would be to achieve this or that percentage or this or that balance between central and local government funding; the case for a change must be made on its own terms.

**The Convener:** You have just answered any questions about returning the non-domestic rate to local councils, so I thank you for that.

**Mr Kenneth Gibson (Glasgow) (SNP):** I am surprised that the Executive's submission comprises only two and a bit pages. I wonder whether you are taking the process seriously. The committee is to dedicate something like nine committee meetings to the inquiry, yet all that we have from the Executive is a summary of continuing work. No attempt has been made to consider alternative systems such as a sales tax, a local income tax or a vehicle tax. If the Executive does not study other systems for delivering local government finance, how does it know whether its method is the best? We are trying to investigate alternatives, to find the best system for Scotland.

**Christie Smith:** We take the process seriously. The first time that I gave evidence to the committee, I was criticised—rightly—for producing a large volume of paper.

**Mr Gibson:** Perhaps there is a happy medium.

**Christie Smith:** We will try to find that next time. I apologise if the paper is too short.

Ministers' position on the council tax and the other forms of taxation that you mention is that the council tax has worked well and that there is reasonable comfort with it. When we reviewed the grant distribution system with COSLA, there was no suggestion that we should change to a new system. Ministers have no policy plans to change the form of taxation, so it would be surprising if we appeared here with proposals for or analyses of different systems. We would be happy to undertake that if the committee, in due course, recommended that a change should be made, but we do not have a policy agenda of making such a change.

**Mr Gibson:** I notice that you and COSLA have said that people are relatively comfortable with council tax. I am not sure whether people who pay council tax would agree with that.

In paragraph 6 of your submission, under the heading "On-Going Work", you write:

> "The new arrangements for local government finance were developed in partnership by the Executive and local government".

However, the briefing paper that COSLA gave us on 7 February said:

> "**Fundamentally, the lack of local flexibility brought about by the Scottish Executive's detailed breakdown of available settlement resources demonstrates little partnership and trust.**
>
> **There needs to be more honesty in settlement announcements** . . . it is disingenuous for Ministers to suggest that previous cutbacks and the funding of core service provision have been recognised in the settlement. Resources have largely been targeted to specific areas within the services of education, social work, police and fire. Direction to these areas will mean disproportionate cuts in core service provision and other service areas".

There is a clear dispute between COSLA and the Executive about the extent of hypothecation and ring fencing, which you said would be addressed. Do you agree that local government is right to say that the situation has got a wee bit out of hand? COSLA is saying that you are effectively directing all its additional new expenditure.

**Christie Smith:** I do not fully understand that position. Until last year, our practice was to set service priorities when we announced a settlement. The first four were education, social work, police and fire. There were other categories of so-called protected services and of low-priority services. We swept all that away when we changed the system last year. All that we have done is to announce the totals. As COSLA requested in our discussions last year, ministers have set out the outcomes that they expect to be achieved with the money. We have not introduced any new hypothecation, ring fencing or specific grants in the recent settlement. The proportion of funding that is accounted for by specific grants will be just above 10 per cent, which is fairly consistent with what it has been over the past couple of years.

**The Convener:** Okay. Are you happy with that, Kenny?

**Mr Gibson:** No, but I shall return to the issue later.

14:15

**Dr Sylvia Jackson (Stirling) (Lab):** I welcome what you said about capital investment and flexibility and about the use of outcome measures, which will also bring flexibility. I know that many councils are enthusiastic about going down that route.

You said that you have read the COSLA paper, and I would like you to comment on some points that it contains. The first is the issue of capital investment in relation to public-private partnerships. The COSLA paper suggests that a relaxation of the arrangements and rules would assist councils. That is becoming a significant issue, and I would welcome your views on it. The second point relates to housing capital. It is suggested that there is an overwhelming case for the abolition of set-aside arrangements. I would like you to comment on that. The third point concerns another huge area that we have started to consider—community planning. It is suggested that a pooling of resources between various organisations, councils and their partners is a difficult exercise. Are you considering ways in which that can be facilitated?

**Christie Smith:** I shall deal with the set-aside and pooling issues first. I cannot recall precisely the point that COSLA made on PPPs.

The COSLA paper draws an analogy between the set-aside rules for receipts for the housing account and the set-aside or recycling of receipts rules that were in place for the general capital account. The objectives of those two schemes were different and their success has been different. The housing set-aside rules were in place to reduce councils' housing debt, which was thought to be having an impact on rents and councils' ability to invest in housing. The rules have achieved some success and ministers have no intention of changing them.

The receipts rules that we have done away with for the general capital account were a kind of redistribution mechanism. They were in place to compensate asset-poor councils for their lack of assets; they were intended to make the total amount of capital consents go further. Councils with significant capital receipts would give some up, and that money would be redistributed to councils without significant capital receipts. When we analysed the effect of that system, we found that it was not working. A very small amount of capital was being recycled in that way and the rules were holding back some councils in investment. In other words, those councils were not realising their assets or bringing in receipts for fear that they would have to give them up. The system was suppressing capital investment by councils.

This year, with the ability to increase total allocations, we thought that it would be more sensible to get rid of those rules The reason for having them for the general capital account was different from the reason for having them for the housing account. Ministers still believe that the rules for the housing account are working and will continue with them for the time being.

**Dr Jackson:** The COSLA paper suggests that there should be a relaxation of the rules governing the way in which PPP arrangements work. It says:

> "With restrictions in local government resources overall, consideration needs to be given to the most flexible use of resources and taking forward capital investment decisions on a genuinely best value basis. A relaxation of PPP/PFI arrangements and rules would assist in this."

**Christie Smith:** Yes. We agree that it should be possible to establish a level playing field whereby councils can make a best-value decision on how to procure a service, whether through capital investment, revenue expenditure or PPP. One of the purposes of the review of capital controls is to establish a system in which a council does not have to approach the Executive for capital consent, but can make a decision on the basis of the resources that are available to it. That is the situation that we are aiming for. I am not sure that the existing PPP rules are a significant factor in that, and the COSLA paper does not go into sufficient detail on the matter for me to give a view on it. However, I would be happy to take that idea on board.

**Dr Jackson:** You are right; the COSLA paper highlights the blurring between the two areas of revenue and capital. The third point in the paper that I would like you to address concerns community planning and the pooling of budgets.

**Christie Smith:** There have been some positive developments in that area. First, three-year budgeting will make it easier for organisations to pool their budgets. In the past, the complaint was that, because people knew how much money they would have for the coming year only, they were reluctant to commit themselves beyond that period. Three-year budgeting will provide a positive contribution. Secondly, the Executive will soon consult on a long-term care bill, which will contain specific proposals to allow health boards and local authorities to pool their budgets. Thirdly, the pilot local outcome agreements that we will initiate next year will not necessarily be confined to local authority funding. If local authorities want to pool their budgets with local partners, we will try to accommodate that in the outcome agreements.

**Dr Jackson:** That is good news.

**Mr Gil Paterson (Central Scotland) (SNP):** When we spoke previously to the Executive, the committee expressed the opinion that all the evidence that we received in relation to the McIntosh report suggested the need for a change from the present system. The only people on the planet who believe that the present system is worth while are in the Executive.

The Government has significant control over councils—80 per cent of their finance is held centrally and only 20 per cent is held locally. Over and above that, there is ring fencing. Has not the Executive decided to change its mind and to be more progressive by considering other systems in other countries—the issue that Kenny Gibson raised earlier—and the correlation between the quality of service delivery and the amount of finance that is controlled locally?

**Christie Smith:** We are aware that there are different balances in finance between central Government and local authorities in other countries. The issue remains—how do we find the right balance in percentage terms? Local government finance has been held more centrally in the past. The percentage of resources that are held centrally has been higher as well as lower, but the percentage of resources that are held centrally does not signify the degree of control that the Executive extends over local government.

Until recently, council tax capping and expenditure guidelines attempted to control councils' total spending. We have eliminated that aspect of control over council resources. It is not true to say that, because 20 per cent of local government finance is raised locally, that is the percentage of local control; the Executive does not control the use of the 80 per cent of funding that is held centrally. It is important to acknowledge where those funds come from, but we do not control 80 per cent of local authority activities just because the balance of funding is 80 per cent to 20 per cent. The situation is more complicated than that. We would be happy to receive evidence that suggests that there is a correlation between the balance of funding and the degree of central Government control. However, we do not think that the matter is as simple as that.

**Mr Paterson:** I do not think that it is as simple as that, either. That is why I am surprised that the Executive, knowing that the committee's report is coming up, has not considered examples from other countries of the correlation between the balance of finance and the quality of service delivery. It is all very well saying that, in one country, 40 per cent of local authority finance is raised locally and 60 per cent nationally, but there must be a correlation between delivery of service and the level of local control and local accountability. I am surprised that the Executive has no plans to consider examples from other countries.

**The Convener:** It does not appear to have any plans. Maybe we have given it a big hint. Do you have another question?

**Mr Paterson:** No, I just wondered whether we were getting a response to that suggestion.

**Christie Smith:** All that I can do is note Gil Paterson's surprise. The position is that ministers have no plans at present to change the balance. However, if the committee thinks that there are reasons for doing so, ministers will undoubtedly consider that.

**The Convener:** At this stage, the question is not so much whether the Executive has plans to change the situation, but whether it has plans to consider doing so. We note what you say, however, and you might find that you receive a letter on the subject.

**Mr Keith Harding (Mid Scotland and Fife) (Con):** Does the Executive have any plans to re-examine the council tax banding arrangements? Are bands being added at the upper or lower ends? Is there a possibility that the council tax base might be revalued?

**Christie Smith:** Ministers have no plans to make any changes in that area. They are aware that the committee is examining that issue and look forward to reading the committee's recommendations.

**Mr Harding:** Are there any proposals to consider the revenue grant distribution system?

**Christie Smith:** We have just set the revenue grant distribution for three years and are aware that we will soon have to start considering the method that should be used for the next three-year settlement. Part of the benefit of the three-year settlement is stability and the fact that it will dampen down expectations or anxieties about changes. We are not desperate to rush into using a new method at this point but, during the course of the year, we will consult on the way in which we approach the revenue grant distribution for the next three-year settlement. That work will certainly be done by the time of the next spending review in 2002. We will talk to local authorities about that and take the views of the committee into account.

**Mr Harding:** Following Gil Paterson's comments, it appears that the Executive sees no link between local accountability and the proportion of tax that is raised locally. If that is the case, why does not the Executive fund local spending from national taxation? That would do away with the exorbitant cost of collecting council tax.

**Christie Smith:** I did not say that we see no link. I said that we see no direct implications arising from the use of any particular figure and that we have seen no evidence that would lead us to change the situation. Clearly, it is important that councils have some local accountability. We think that the changes that were made this year in relation to council tax control—granting councils the freedom to set their own council tax levels and the abolition of expenditure guidelines—will have helped in that regard. We are not convinced that there is insufficient freedom and accountability, but we would be happy to hear contrary views.

**Mr Gibson:** I want to return to the issue of ring fencing. The Convention of Scottish Local Authorities' briefing paper says that

"the increase in ring-fencing through specific grants is of concern to COSLA and is at odds with the Minister for Finance's statement to Parliament on 7 December that there is 'an increased focus on service outcomes'".

You mentioned service outcomes earlier. The briefing also states that

"the process is rigid and bureaucratic . . . fragmentary and militates against a strategic and joined-up approach",

and goes on to say that the process generates perverse outcomes and that resources are demonstrably insufficient to meet the needs of Scotland's communities.

Do you think that there is a possibility that you might be contradicting the spirit, if not the letter, of the European Charter of Local Self-Government? Article 9 of that charter states:

"The financial systems on which resources available to local authorities are based shall be of a sufficiently diversified and buoyant nature to enable them to keep pace as far as practically possible with the real evolution of the cost of carrying out their tasks."

COSLA says that that is not happening. The charter also states:

"As far as possible, grants to local authorities shall not be earmarked for the financing of specific projects. The provision of grants shall not remove the basic freedom of local authorities to exercise policy discretion within their own jurisdiction."

COSLA thinks that your current philosophy is in danger of breaching that charter. Do you agree?

**Christie Smith:** No, I do not. The proportion of funding that we give to local authorities as specific grants is 10 per cent of central Government funding, and it is considerably less than the proportion of total funding. About two thirds of that 10 per cent is the general police grant to support police forces. It is not for any specific project or activity. Most of the rest of the funding is excellence fund education grants, which exist to improve standards in schools and so on. Three per cent or 4 per cent, or less, of total funding to local authorities is in the form of specific grants.

14:30

**Mr Gibson:** COSLA says that because the proportion is continually increasing, that is causing a lack of flexibility, which is why there will be above-inflation council tax increases next year, at the same time as cuts in core services. Surely you are making it more difficult for local government to decide its own priorities. COSLA and others are saying that you should work jointly with them on shared priorities, rather than saying to them, "This is what you have to do." Are they wrong in their assessment?

**Christie Smith:** I do not agree with that assessment. The proportion of specific grants grew during the 1990s, until 1997 or thereabouts. It has been broadly 9 or 10 per cent since then, and it will remain at that level throughout the spending review period. We did not introduce any new specific grants in the settlement. We actually took some of the inhibitions off local government, in the sense that we did not publish lists of local authority services and what we thought should be spent on them; we left that to local authorities. Ministers have attempted to set out to local authorities the outcomes that they want them to pursue with the additional resources that are being provided. If COSLA disagrees, that is a matter for COSLA, but we have made a lot of progress with COSLA in the past year.

**Mr Gibson:** But surely it is a crucial issue if COSLA—which represents 28 local authorities and at one time represented all local authorities—says one thing, and the Executive says another. Do you think that there is a communication problem, whereby you are unable to explain to COSLA what is happening? Is COSLA saying that the Executive is being disingenuous? COSLA told my colleague Gil Paterson and me that the Executive is, in effect, saying where every penny of additional money over the next three years will be spent.

**Christie Smith:** It is not fruitful for me to get into an argument with COSLA when we have been discussing these issues constructively all along. If there is evidence of specific ring fencing or an increase in ring fencing or some other means by which it is said the Executive has extended its control over local authorities' resources, we would be happy to look at that. In discussions with COSLA, I have not been presented with any specific evidence of that.

**The Convener:** This matter is raised in COSLA's paper to the committee, and from which Kenny Gibson quoted, so perhaps the Executive could take the matter up with COSLA, given that the paper is now in the public domain.

**Dr Jackson:** I wish to address non-domestic rates. Opinions differ, depending on whether you look at the business side or the COSLA side. In its paper, COSLA argues:

"The return of business rates to local authorities would help to restore the link between local businesses and the local council and its services."

What is your view? Are there any schemes that can be seen as a halfway house, where there might be a threshold or an upper limit, in that business rates could only increase by so much? I think that that was recommended in something that I read.

My second question is on the small business rates relief scheme, on which you said a paper has just been issued. The Forum of Private Business is concerned that such a scheme will not necessarily support or help some small businesses, because it will be aimed at the property as opposed to the business. Could you comment on that, and on some of the issues that the FPB has raised in the public domain?

**Christie Smith:** On the first issue, ministers' position is that it is in the interests of stability, certainty and a level playing field for business that there should be a uniform national business rate. Again, they have said that their minds are not closed for ever on that, but they do not have any plans at present to change that position.

If that policy position were to change, a variety of options could be considered, such as halfway houses and so on. However, if some of the halfway houses amount to attempts to guarantee stability and no-greater-than-inflation increases and so on, they would not achieve much change in terms of local flexibility and accountability. The closer that one gets to the current position, where there is a guarantee of a no-greater-than-inflation increase in business rates throughout the country, the less one moves in the direction of local accountability and flexibility. There will always be a trade-off between those two factors.

The only benefit that the COSLA paper adduces from localisation would arise if local authorities were enabled to increase or reduce business rates significantly. Ministers would have to think about the extent to which any change would alter the current position in which businesses throughout the country have reasonable certainty and stability in relation to the business rate.

We have received a variety of submissions on the small business rate relief scheme, most of which have centred around property-based schemes, although we acknowledge the Forum of Private Business's argument that targeting would be imperfect in a property-based scheme. However, the Federation of Small Businesses has supported a property-based scheme. We have invited views on whether tighter criteria could be applied in addition to a property-based qualification.

The trouble is that property-based taxes are the easiest to identify and collect—properties cannot be moved around. The bureaucracy that is involved in valuing properties and collecting the tax is relatively light. The more that one uses other measures, such as turnover and so on, the more difficult it is to administer the scheme. We are considering alternatives, but the basic proposal is for a property threshold and there is a question about what other tests, such as turnover tests, would target small businesses most effectively.

**Dr Jackson:** I will ask a supplementary question to my first question on returning non-domestic rates to the local authorities. The COSLA paper argues that there has been a significant change of emphasis in what happens locally in community planning, and in the relationships between councils and their partners, in the business sector in particular. It argues that that new way of working might lead to businesses being less worried about a locally based rates system. What is your view on that?

**Christie Smith:** During the past year, we have discussed with business and COSLA the concept of business improvement districts, in which local authorities would agree with the business sector to invest in certain improvements in services, which would be funded by an additional levy on business. We got COSLA and business representatives together to discuss that concept. I understand—I report this second-hand because I do not have direct evidence—that the City of Edinburgh Council is discussing with representatives of its business sector partnership arrangements that would move in that direction. I do not know whether any legislative or other support from the Executive would be needed to make that work, or whether that can be done on a voluntary basis. As has been said, there is some evidence that discussions are taking place. That is promising.

**The Convener:** Obviously, the non-domestic business rate is part of an overall review of finance, but it will be dealt with by the committee separately when we examine the Executive's paper, which is out for consultation. Perhaps you will be back here wearing another hat to deal specifically with that matter. Sylvia Jackson is right that it is part of the full review.

**Mr Gibson:** You will be glad to know that I wish to ask about a couple of completely separate issues. First, we have about 90 different grant-aided expenditure measures, whereas there are 19 equivalent measurements in England. Each GAE has its own separate distribution system. I hope that Nikki Brown, who has been quite quiet, will take the chance to speak, because GAE is her area of expertise. Are there any plans to reduce the number of service GAEs? What discussions are being carried out with local councils on that issue?

**Nikki Brown (Scottish Executive Development Department):** As Christie Smith said, we hope to take advantage of the time that the three-year settlement gives us to examine the distribution system. We have heard comments that the current system is very complicated. There are many assessments. That is a product of a system that has been built up over some years to pinpoint as accurately as possible the relative needs to spend of local authorities. It is a matter for discussion whether what we want from a system in the future is accuracy and the fairness that is produced in that way, or predictability and a system that is open, transparent, understandable and relatively easy to track. We hope to consider those issues over the next couple of years.

**Mr Gibson:** You mentioned accuracy and predictability, but what about flexibility? Do you agree that the large number of measurements of GAE make the system very inflexible?

**Nikki Brown:** That is certainly the case, but it is also true that the flip-side of flexibility is stability. The system has 89 GAE assessments and makes use of 38 primary indicators and 13 secondary activities, so if one reviews and changes one indicator, the change in the resulting distribution is not as great as it would be if the system had only 6 indicators. It would be worth while considering a simpler system, but we should be aware that a simpler system might reduce the standards of stability that we have at present. We understand that stability is an important concept for local authorities. They like the idea that their assessments will not fluctuate widely from year to year. That is a quality of the system that we want to retain.

**Mr Gibson:** Do you think that there is any way in which the GAE system could be understood by lay people, or will it always be understood by only a fragment of a fraction of a small section of the population?

**Nikki Brown:** I wonder what proportion of the population would wish to understand the system.

**Mr Gibson:** Probably more than understand it at present.

**Nikki Brown:** You are right that it is important that we try to ensure that whatever system we have is widely understood.

**Mr Gibson:** I will ask about the set-aside rules, under which local authorities are required to set aside 75 per cent of the proceeds from the sale of housing assets for the repayment of debt. Does the Executive intend to retain the set-aside provisions, particularly in light of the new prudential regime that might be introduced? Will the set-aside rules be abolished over time? What is the Executive's long-term view?

**Christie Smith:** The set-aside rules apply only to housing capital. So far there have been quite separate arrangements governing housing accounts and the general account. We have already abolished the receipts rules in relation to the general account. It was in relation to that that I talked about moving to a prudential regime. To be honest, I could not answer in detail on any proposals on the housing capital front. If Mr Gibson would like a fuller explanation, I will pursue that matter with colleagues and get back to him after the meeting, but it is my understanding that there are no current plans for change.

**Dr Jackson:** Following what Kenny Gibson said on GAE calculation, I will raise a point that I think is linked. The European Charter of Local Self-Government, article 9.4, states:

> "The financial systems on which resources available to local authorities are based shall be of a sufficiently diversified and buoyant nature to enable them to keep pace as far as practically possible with the real evolution of the cost of carrying out their tasks."

How do you keep pace with changing needs? We might have asked that question before. I am thinking—I always bring this up, but it is always at the front of my mind—about the roads infrastructure, for instance, or school modernisation. Where, perhaps over years, something has not been done and there is now a greater need than there was previously—I am thinking of wage settlements and so on—how do you keep the calculations apace of the different aspects?

14:45

**Christie Smith:** There are long-standing joint consultation arrangements between the Executive—formerly the Scottish Office—and COSLA. There are committees on expenditure, distribution and capital issues that sit all year, more or less—or at least they have in the past—to review issues such as new pressures on local government, new burdens created on local government by actions of Government and so on.

I shall give an example. In last year's spending review, ministers received a number of submissions both from those committees and directly from COSLA office-bearers. Those priorities were reflected in the spending review outcomes, which we then, at a technical level, turned into a distribution method. For example, the McCrone negotiations resulted in agreement between the Executive, COSLA and the unions about changes to teachers' pay—that provision was put into the settlement. We then, in effect, pushed that money down through the GAE that exists for teachers' pay—primary and secondary and so on—so that it was distributed to each council.

That machinery is permanent, standing machinery, which has existed for years. Although the outcome has not always been a happy agreement about how things are done, the mechanisms generally cope with that sort of thing pretty well.

**Dr Jackson:** I am trying to get at whether the proportion that is spent on the various areas is roughly similar to what it has always been. Are figures merely readjusted if something is got from the spending review—readjustments are made, as you say, within the GAE calculations—or is a political decision on where priorities lie then fed into the GAE calculations? Is it a bit of both? I am trying to understand how evolving needs are written in to the calculations.

**Christie Smith:** The traditional way would have been that ministers would have decided their political priorities and would then have made spending decisions on how to allocate resources to local government. Equally, local government is always lobbying central Government on its priorities. In last summer's spending review there was a series of consultation meetings at which COSLA made representations on, for example, the state of the local roads infrastructure, the state of school buildings, the need to make further provision for care of the elderly and so on. Those were reflected to some degree in the spending review decisions that ministers made, as a result of which we distributed resources to local authorities in accordance with those priorities.

The answer is yes—the calculations are reviewed each year and there is a mechanism for ensuring that that happens.

**The Convener:** It appears that there are no more questions. As I said, this is the start of our review. We called in the Scottish Executive to give evidence first; the last people whom we will call in will be the ministers. I hope that within that time there might be some changes—perhaps the ministers will say something slightly different.

There were a couple of things that we picked up from the COSLA report that the witnesses have agreed that they perhaps need to look at—if not talk to COSLA about—and it would also be interesting to pursue the answer that was given in response to the question about housing and the set-aside.

I thank the witnesses for coming along. As always, if we need to have you back again we will call you in. Thank you very much for your time.

So that it is in the *Official Report*, can I just say that it is absolutely freezing in here. I see that somebody has put their coat on, and quite rightly so.

We welcome representatives from the Convention of Scottish Local Authorities to the committee again. We have with us today the chief executive, Oonagh Aitken, Norie Williamson, COSLA's head of finance, and Brenda Campbell, the finance officer. The procedure, as usual, will be that one of the COSLA witnesses will speak for a couple of minutes, before we open the meeting up for questions. Will Oonagh Aitken tell us who is to speak first?

**Oonagh Aitken (Convention of Scottish Local Authorities):** Thank you for inviting us to give evidence. I apologise for the absence of Norman Murray, the president of COSLA, but the weather has kept him in East Lothian today. He would otherwise have been present, and would have welcomed the opportunity to give evidence to the committee. I will now hand over to Norie Williamson, who will give a five to 10-minute introduction. Following that, all of us will be happy to answer questions.

**Norie Williamson (Convention of Scottish Local Authorities):** COSLA has long campaigned for an independent review of local government finance. As Oonagh Aitken said, we welcome the Local Government Committee's inquiry into the present system, which we think confuses accountability, creates dependency and has too many central controls. As part of today's oral evidence, we would welcome discussion of how COSLA can contribute to the inquiry's progress, as we are keen to develop the areas that are outlined in our submission.

Our submission is essentially an outline, or framework, of the issues that we would like to develop. Our intention is to set up a series of task groups to take forward the issues that are set out in our paper, to develop COSLA policy, which, in turn, could feed into the committee's inquiry.

It would be churlish for us not to recognise the positive developments in local government finance: the three-year revenue and capital settlements, the abolition of spending guidelines and the start of working to local outcome agreements. Those are all steps in the right direction. However, a problem that we have identified is that, if the committee looks at various items of local government finance in isolation, it is possible to come up with solutions that are at odds with the overall direction that the committee wants local government finance to take. From that point of view, we welcome the holistic approach that the committee seems to be taking to its inquiry.

The evidence that we have submitted covers several key areas. One of the recurring themes throughout our submission is the need for a better balance between central and local funding. We have taken that forward, suggesting areas of refinement and updating of the council tax arrangements, considering supplementary or alternative local taxes and considering the implementation of arrangements that will restore a link between local businesses, the local council and its services.

Those matters raise several issues, such as ring fencing and the level of central direction within the settlement. Members who have read the evidence that we gave on the Local Government Finance (Scotland) Order 2001 will know that that was a key feature of our evidence, when we discussed the spending review announcements. We have major concerns about the extent of central direction and about the difficulty under the current arrangements, in the eyes of the public, of apportioning responsibility when something goes wrong. The annexe to our evidence sets out several examples, which illustrate that ring fencing can generate perverse outcomes. It is rigid and bureaucratic, and militates against taking a strategic approach to the issues. That points to the need to develop a partnership based on local flexibility and trust; local outcome agreements are a way of taking that forward.

The need for resource equalisation will have to be taken into account when those arrangements are developed. A fundamental consideration is to strike an appropriate relationship, or balance in funding, between central grants and local taxes—that can include both the business element and council tax payers—and the level of fees and charges that are set by councils.

In our evidence, we also discussed the principles of developing a simplified grant distribution arrangement, which would build on the stability and certainty that were introduced in the current year but would also recognise the varying spending needs of individual councils.

On the capital issue, in our submission to the spending review last summer, we demonstrated that major investment was needed within local government to maintain existing infrastructures, to take forward the modernisation agenda and to put in place spend-to-save measures, which might result in savings in the long term. We have demonstrated that those savings cannot be delivered under the current controls, so we need more flexible arrangements and best-value arrangements in place. We should consider a system that moves away from controls to safeguards and from centralised arrangements to self-regulated arrangements.

We have set up a professional officer working group, which involves ourselves, civil servants, the Chartered Institute of Public Finance and Accountancy and Audit Scotland. We will proceed with work in that group to develop prudential safeguards, take it through our political machinery and, we hope, feed it into the work of the committee.

That is the first stage in tackling the capital problem. After that, we would like to go on to consider the problems that are created by the public expenditure definitions and the representations that need to be made to the Treasury on that matter.

Those are big issues, which are perhaps not easily resolvable, but we welcome the fact that the committee is proceeding with the inquiry.

**The Convener:** Thank you.

What do you see as your top priority? Is it the balance between local and central funding or technical improvements to the grant distribution system?

You mentioned new taxes in your submission. Have you identified any new taxes? If you have, where is your evidence that that would be a way forward?

**Norie Williamson:** As I have said, the key priority that feeds through everything is the balance between central and local government funding. It would be possible to tackle the grant distribution arrangements, but the problem of inadequate overall resources and level of funding will never be solved by planning to distribute what we think is an inadequate sum in the first place. Those difficulties would arise if we immediately adopted a revised grant distribution system. If the wider view was taken, it would lead to a better result for local government, albeit that it would open up a lot more doors.

Clearly, the Layfield committee and others promoted a number of alternative or supplementary taxes. In our paper, we have deliberately not come down hard on any of those. We would like to develop that work and consider areas such as local sales tax, local income tax and land value tax. We would even like to open up options such as a tourist tax or a line rental tax on cable companies and others.

We want to open up those options and consider the advantages and disadvantages of each. They all have different pros and cons. We want to consider them and report a COSLA policy position, which will assist in advancing the committee's work.

15:00

**Mr Paterson:** I am quite pleased about your previous answer. When I read your paper, I came to the conclusion—like everybody else, I may add—that COSLA is unhappy with the present system, that you want to go back to the old system and get your hands on business rates, and that everything would then be hunky-dory. I am exceptionally pleased that you have a broader outlook and are considering other mechanisms.

What kind of balance would you say is required between funding from local government and from national Government? What do you think is the right figure? If the balance was changed, would that have an impact on the delivery of services, or are you just looking for other ways to get money into the kitty? We notice that, as you well know, you get squeezed year after year by central Government and the result is that you have to put the local tax up.

**Norie Williamson:** COSLA's view on the balance would accord with that of the likes of the Hunt committee, which indicated that the balance should be at least 50 per cent. That is certainly our view.

Gil Paterson mentioned business rates. We have set out a case in our submission for a return of business rates to local authorities in full or in part. That, as Gil Paterson says, could be allied to other developments on local taxation.

We well realise that the world is changing for local government. Finance is perhaps at the root of the problems, but it should not be the only solution to taking forward, revitalising and modernising local government. Business rates have to be part of the bigger picture of developing joined-up thinking throughout the public services and delivering services for the best value overall.

**Mr Paterson:** Local government has a bit of work to do on rates. I declare an interest: I have a couple of businesses that pay rates. The perception of most businesses, if not the reality for them, is that they pay rates and that, in the bad old days, those rates were targeted. The rates went up because of the political decision to increase the rates of non-voters—business rate payers are non-voters—compared with the rates paid by domestic rate payers. Domestic rate payers had a bit of clout because they ultimately have votes.

COSLA needs to do a bit of work in that respect. The typical feeling for those in business is that the rates go up and at the same time they have to pay for their bins to be emptied. There needs to be an awful lot of work on past history before businesses are encouraged. What are your views on that? Do you have anything with which you could encourage the business community?

**Norie Williamson:** We well recognise that perception. Whether it is right or wrong, we have to recognise that it exists. The system that Gil Paterson mentioned existed in the past, and perhaps the perception to which he referred was well founded on events that took place some time ago. We emphasise that local government has moved on. We recognise the difficulties. We recognise the safeguards and the machinery for consultation that would need to be put in place.

All that drives a closer link between local businesses and the services that the councils provide. It all fits in with the partnership approach in advancing investment and service delivery within councils. However, we recognise that a lot of groundwork has to be done with the business sector.

**Mr Gibson:** I do not know whether you heard the contribution of the witnesses from the Executive, but they seemed rather perplexed about the fuss over the extent of hypothecation. They greatly disputed COSLA's views on that. However, I will not talk about that; you will be able to read the *Official Report* after the meeting.

The Executive and COSLA continue to differ on the development of prudential safeguards on capital investment, as a replacement for the existing section 94 controls. How will the safeguards work, and how will they benefit local government?

**Norie Williamson:** We have made inroads on that issue. At the moment, there is double counting in public expenditure. Loan charges count on the revenue side; and, when consents are issued, they count against the assigned budget. In essence, consents are only on paper and are not a grant that is given to councils. We want a simpler and more flexible system.

As a result of the partnership arrangements of recent years, the line between revenue and capital has been increasingly blurred. We want to address that and put in place best-value arrangements for overall investment. That all ties into the introduction of the power of community initiative and the whole best-value and modernisation agenda.

We need to consider how we can reach agreement on priorities for investment because, when the UK Government came to power, one of its golden rules was that borrowing should be for investment and not for day-to-day purposes. Some people may be concerned that, if given freedom, local authorities may direct money towards the revenue side and not the capital side. From what I have heard from councils, I have no fears about that. Councils are keen to invest and, in the long term, that will generate savings. However, we recognise that some safeguards will have to be put in place to reassure the Government and the Treasury, in their consideration of macroeconomic policy, that things will not get out of hand.

**Mr Gibson:** We discussed the European Charter of Local Self-Government with the Executive earlier. Both Sylvia Jackson and I have quoted from article 9 this morning. It includes the line:

> "for the purpose of borrowing for capital investment, local authorities shall have access to the national capital market within the limits of the law."

Has that statement been followed in spirit or simply in letter?

**Norie Williamson:** We would hope to follow up on that as part of the work that we will do with CIPFA and Audit Scotland. We will consider not only a revision of the capital control arrangements, but an enhancement of the abilities of local authorities to invest and to borrow. We recognise that local authorities have a bit of a track record that counts against them. We therefore recognise that we need to provide safeguards, and that is why we are keen to advance our work with the professionals in CIPFA and Audit Scotland. I hope that that will reassure the Executive that things are under control. The CIPFA code on treasury management was established because of difficulties in local authorities. We can build on that good practice in developing prudential safeguards.

**Mr Gibson:** You mention local authority self-financed expenditure in your submission. For the record, what are your concerns about that?

**Norie Williamson:** LASFE has been in and out of public expenditure controls over the years. Economic commentators have said that that has been largely for political rather than economic purposes. The introduction of the new control arrangements, departmental expenditure limits and annually managed expenditure presents an opportunity to review all the public expenditure definitions on local authority self-financed expenditure and capital. We suggest that council tax through LASFE has a minimal impact on the macroeconomic policy of the UK Government. Major economic commentators have also said that.

**Dr Sylvia Jackson:** I welcome your paper, which was very full and is sure to aid us. I am well aware that the process of the local government finance review is on-going and that some of the steps that we have been calling for have already been taken. Thinking about the present and the local outcome agreements in particular, how would you like to see such measures operating? Would you like most councils to take part in that in the coming year? It could be a useful step in getting over some of the difficulties to do with ring fencing.

**Norie Williamson:** There are various ways in which to take forward the local outcome agreement approach. Our favoured approach would be for local outcome agreements to be applied in all councils. That is the central difference between the arrangements that we are trying to put in place in Scotland and those in England. We oppose the beacon council concept because we believe that all councils should have the opportunity to take forward best value and local outcome agreements. In areas such as children's services and community care, we hope to roll out the local outcome agreement approach to all councils. When local outcome agreements are determined, there must be discussion about what is achievable realistically with the resources that have been made available. If agreement on that is reached, it can open up the dialogue between councils and the Executive on delivery against the local outcome agreements.

**Dr Jackson:** Over the next three years, do you see councils getting to grips with that approach?

**Norie Williamson:** Yes. There is a great deal of enthusiasm in councils for that approach.

**Dr Jackson:** My second question relates to the section in your paper on capital. I was rather confused by your comment that:

> "When the Government came to power it expressed a commitment to stimulate capital investment and, in particular, put in place a golden rule that over the economic cycle the Government would only borrow to invest and not to fund current spending."

You go on to list several examples of investment. However, the first, which relates to energy efficiency, is already on its way. Is that new investment or is it on-going? Is one of the difficulties that there is a grey area?

**Norie Williamson:** There is a grey area. In the paper, I was trying to highlight the point that when investing in new buildings, we should have an eye to building and designing such buildings with energy efficiency in mind. That means considering longer-term investment and spend-to-save measures. Giving local authorities flexibility to invest now will generate savings in the longer term and create more efficient public services.

**Dr Jackson:** In other places in the submission, you mention that there are particular difficulties with roads infrastructure and school buildings. How do we fit that into the picture?

**Norie Williamson:** It is a balance. The investment needs that we identified cover several areas, such as maintaining the infrastructure. That includes roads infrastructure, which, largely because of a lack of investment on the revenue side, needs substantial investment on the capital side in order to repair and make good the roads—it is not just repairing potholes. That is one facet. Another is to take forward the modernising agenda: investing in information and communications technology and one-stop shops. We need to deliver more joined-up services. Another facet is the spend-to-save efficiency measures, which will lead to savings in the longer term.

**Mr Harding:** Thank you for the submission. As usual, it is up to COSLA's high standard. My one concern is that its emphasis is on increasing taxation. Is there any suggestion that COSLA will review the appropriateness of current expenditure by councils and examine whether there are savings within the so-called excellent settlement that was recently announced by the minister and welcomed by COSLA?

15:15

**Norie Williamson:** COSLA welcomed the overall settlement when it was announced in September and the system changes that were introduced. We had some concern once the detail emerged on the level of central direction. I will preface my comments with that remark.

That all links in with the best-value regime and the need to demonstrate best value in spending, from the public's point of view. Mr Harding indicates that it might be viewed as an increase in taxation; it is a change in taxation from central to local taxation. It is a move away from the provision of grants from the centre to local taxation, which would stimulate the restoration of local democracy. That, taken together with the best-value regime and consultation with the public and the business sector, demonstrates that local authorities are not taking this forward in isolation—it is all part of the community planning agenda to work with local communities.

**Mr Harding:** I may have misread your submission, but you mention considering new taxes, returning business rates to councils and new bandings, which means additional taxation within the system. The emphasis of the submission is on tax increases. I do not think that that would go down too well in the current climate, after the recent council tax increases.

**Norie Williamson:** The proposals need to be developed in considering the paper; it is a matter of whether the interpretation places emphasis on new supplementary taxes to generate more spend or new supplementary taxes to introduce a better balance between central and local government funding. In my drafting of the paper, I meant the latter.

**Mr Harding:** Should there be a revaluation of council tax bandings?

**Norie Williamson:** Yes.

**Mr Harding:** How often should that take place? Should it be at the same interval as non-domestic rates?

**Norie Williamson:** In England, the green paper calls for a revaluation every five years.

The current rates are based on April 1991 levels, so they are about 10 years out of date. There should be a revaluation and a commitment to revalue regularly; whether it is every five years, eight years or whatever, the certainty of a revaluation would help.

Part of the revaluation should be a reassessment of the bandings, because around 26 per cent of properties are in band A in Scotland. That was not the intention when the council tax was introduced. It was always felt that band D would be in the middle; that has not happened. We would seek a refinement of the council tax bandings, at both the bottom and the top of the scale.

**The Convener:** The committee would agree with that.

We asked the Executive that question and it had no immediate plans to consider it. You think that it would be a good idea, but do you intend to pursue it in a more structured way, through research?

**Norie Williamson:** This is a framework paper: we will set up task groups to develop and promote a more detailed case than is given in our paper. The case for a refinement of the tax system and a revaluation is set out in about half a dozen lines in the paper. We would want to develop that case to assist the committee.

**The Convener:** That would be helpful.

**Mr Paterson:** I will take you back to the section in your submission on the balance between central and local funding. What is the net effect of earmarked financing on basic freedom under the current system? What changes are required?

**Norie Williamson:** What do you mean by the net effect?

**Mr Paterson:** What is its impact on local services?

**Norie Williamson:** The annexe to our submission tries to emphasise that. We prepared the annexe last summer, so some of the references might be out of date. However, the principles that are outlined in the examples are still relevant.

The annexe is based on a trawl of local authorities. The trawl tried to identify the perverse effects of ring fencing in the system. The annexe tries to demonstrate that, although overall resources have increased through the spending review, they are being directed to particular areas and that the bread-and-butter, core services are perhaps being constrained in order to deliver on particular initiatives such as high-profile projects.

The annexe gives examples and tries to emphasise the difficulties that are created by the annuality of specific grant arrangements, which do not sit neatly with the new arrangement of three-year settlements. There are a number of areas for which grants are issued annually or for which we are still waiting for details of grants to be announced for the next financial year. That does not assist local authorities to plan for the future in the longer term or when sitting down with their partners and thinking about how they can proceed with service provision. As Gil Paterson says, the annexe perhaps shows the net effect of the ring fencing of resources.

**Mr Gibson:** On the final page of your submission before the annexe, there is an interesting paragraph on pooling resources. You mention differing structures and accountability arrangements that act as constraints throughout the public sector and you refer to the joint paper from COSLA and the Accounts Commission for Scotland, "Following the Public Pound". Indeed, you state:

> "Whilst developments to put in place Local Outcome Agreements will assist in addressing some of these issues, work needs to be taken forward"—

**The Convener:** Excuse me, can I interrupt? You have put your microphone down and you are not being recorded properly. You are looking the wrong way or something. Start from "Whilst developments".

**Mr Gibson:** Sorry.

**The Convener:** I sound like a teacher.

**Mr Gibson:** Gee, thanks.

> "Whilst developments to put in place Local Outcome Agreements will assist in addressing some of these issues, work needs to be taken forward to review the financial and regulatory barriers to effective action in tackling social inclusion and partnership working."

What action do our witnesses believe can be taken?

**Oonagh Aitken:** One of the important pieces of work that was done last year involved the joint future group, which concentrated on the care of older people and the initiatives that could be developed between local authorities and the health services. During that period, we recognised that we were coming up against a number of barriers, both financial and statutory, that hindered the social work services and health services in working together.

In the group's conclusions—I am sorry that I do not have them with me—there are a number of recommendations on financial, structural and human resources planning frameworks. I suggest that a bit of work needs to be done on that. However, it is not impossible to ensure that, when the resources come to a particular area of work, there are no issues about who manages the money or how it is accounted for. The money can then be spent in much the same way as local outcome agreements operate. The same principle applies: the money is associated with a series of outcomes and can therefore be accounted for properly and with probity.

The joint future group recognised that quite a bit of work needs to be done to get rid of the accountancy and other barriers in public agencies that are working together on the ground. Although the group concentrated its work on the care of older people, it recognised that the same principles could be applied to a number of other client groups and programmes in which the local authority services and other public agencies would work together.

Norie Williamson mentioned community planning. Through the community planning frameworks, a number of those programmes can be developed where budgets can be pooled at a local level without any financial or other constraints getting in the way of the provision of effective services to people on the ground.

**Mr Gibson:** Of course, that is joined-up government. Although I realise that you speak only for local government, is there a time scale for trying to extend that philosophy across the public sector?

**Oonagh Aitken:** My personal view is that when the community planning frameworks begin to take effect—we have the settlement for the next three-year period, so that is not a long-term time scale—a number of those programmes should be implemented. The joint future group recommendations are on a tight time scale—from memory, I think that the time scale is the next 18 months or so. We hope that, within the current three-year planning period, such recommendations will be made across the public sector in the community planning frameworks that are being developed at the moment.

**Mr Gibson:** You wrote in your submission:

> "The case for the abolition of set aside arrangements is overwhelming".

That, obviously, refers to housing capital receipts. The Parliament had a small debate about that on 8 February, in which it was made clear that the Executive does not agree with you. The Executive seems to have concerns about the impact of abolition on local authority debt management. Will you detail your views on that?

**Norie Williamson:** The response that we have received from the Executive confirms what you have said. However, we do not want to let the matter rest at that; we are intent on continuing to take it up with the Executive.

Set-aside has been abolished for non-housing capital and the fact that it still applies to housing is an anomaly. Indeed, councils are taking forward changes in the housing market, so things have moved on since the set-aside arrangements were put in place. The alternative models of housing provision that are now being put in place mean that, in our eyes, it is now time to abolish the set-aside in housing.

We will pursue that case by using various means, one of which will be to link the abolition of set-aside to the development of prudential safeguards on capital investment for general services and housing. Developing a persuasive case for that will also assist us in presenting our argument for doing away with the set-aside arrangements on housing.

**Mr Gibson:** What positive effect would the abolition of set-aside have on local government? Would there be any negative aspects to it?

**Norie Williamson:** Abolition would mean that the decision was open to local government either to repay the debt or to use the money in investment. At the moment, local authorities do not have that option. Set-aside was introduced when, generally speaking, there was a decline in consents. Under the capital arrangements that we are suggesting, which are based on best value, local authorities would have the freedom to decide whether to invest or to repay debt.

We recognise that we would perhaps need to set up a monitoring system, both for general services and on the housing side, to demonstrate to the Executive that councils are investing capital appropriately. Whether that system should be based on council plans is something else that we must think through.

**Mr Gibson:** So this is about the Executive trusting local government and about local government being responsible and making its own choices.

**Norie Williamson:** That is true, yes.

**Mr Paterson:** You said that you thought 50 per cent would be a good balance. Have you had any forays into Europe? I do not think that we will have any.

**Mr Gibson:** Gil's passport is gathering cobwebs as we speak.

**Mr Paterson:** We have figures on the different elements and proportions in different parts of Europe. However, we do not have a quality measurement. Is there a correlation between accountability, the level of local tax and the quality of service delivery? In other words, is there a tendency for better service delivery where people are more accountable?

**Norie Williamson:** We do not have any conclusive evidence of that—I cannot imagine that I will be allowed to traipse round Europe to find out.

**Mr Paterson:** That makes two of us.

**Norie Williamson:** It is worth investigating whether any research has been undertaken on the relationship between the level of services and accountability. As we mention in our document, local taxation is higher in most countries than it is in the UK.

15:30

**Mr Paterson:** I have had a quick word with the convener, who said that we will have you back again—that is just to get you forearmed.

**Dr Sylvia Jackson:** My first question is on non-domestic rates. You mention various options in your submission, the second of which is:

> "Where a council's rating basis increases as a result of economic growth in its area, a predetermined proportion of the increased NDRI could be fed into AEF calculations but the balance retained by the individual council for local use."

Does that, or the other options that you consider, contain some unfairness, in that some areas might be prone to more economic growth than others? How might you overcome that?

My second question follows on from what Gil Paterson was saying about quality of service. You mentioned best value. Do you see any developments in that area that could be useful for considering quality of service? Best value is an issue that is often raised but I am never entirely clear what it means.

**Norie Williamson:** I will deal with the first point and Oonagh Aitken will come in on best value.

As has been indicated, the main part of the non-domestic rates section of our evidence is geared towards the return of business rates to local control. A lot of work has to be done on that. The latter part of that section discusses what happens if a full return is not accepted—although there may be some local flexibility at the edges. On economic growth, that would involve the development of the relationship between the business sector and the local council, so that they work together for the regeneration of their area. If that happens and economic growth is stimulated in the area, a measure of flexibility should be given to councils to retain an element of the rates, so that the money does not all go into the national pool. On straight financial grounds there is currently no stimulus to a council—the money just goes into the pool and is recirculated throughout all councils in Scotland. The other side of the argument is what would happen if a council area is in economic decline. We need to consider that more fully.

**Dr Jackson:** The second point was on best value.

**Oonagh Aitken:** I want to say a quick word on Europe before I answer the question on best value. One of the problems with making comparisons with other countries in Europe is that different countries have different tiers of local government that administer different local government services—there are different degrees of centralisation. That is why it can be difficult to compare Scotland—especially since reorganisation and the creation of the 32 unitary authorities—with other countries in Europe. I guess that there will be some research that we can delve into on that.

Whether there is evidence of changes to services as a result of the application of the best-value regime is an interesting question. It is important to remind ourselves that the idea behind a best-value regime is that councils should challenge current practices; it is about getting away from the notion that we just carry on delivering services in the same way just because that is the way in which it has always been done. There are also issues around comparing the way in which services are delivered in one local authority with the way in which they are delivered in another local authority, or indeed with the way in which the private sector—if that is appropriate—or the voluntary sector delivers them.

Norie Williamson mentioned an important aspect in the best-value regime—talking to service users about how they want services to be designed and how they perceive value for money as council tax payers. Evidence from around the country shows that the notion that that exercise should be part of a best-value review of a service has been accepted. After such a review, a decision can be made about reconfiguring a service because of what service users have said, because better practice has been seen elsewhere or, sometimes, because it is believed that the service can be delivered by another agent—be it in the voluntary or private sector—better and more effectively.

Members will be aware that the best-value consultation paper said that councils should be able to achieve a 2 per cent efficiency saving from that work, although COSLA may not have supported that idea. We would be happier for that to be expressed as an efficiency saving that could be reinvested in services rather than one that fell into the black hole of savings.

Best value is intended to achieve better, more effective and more efficient services that may cost less—although that does not always mean that the services are better. However, it should also encourage local authorities to review their services continually and to ask themselves whether they are delivering services in the best way, whether the public are getting value for money and whether by working differently savings can be made that can be invested in other services that the public say that they want from a local authority.

COSLA sees one of its roles as making that review process easier by sharing good practice around the country so that councils do not have to reinvent the wheel. If one local authority plans to review its home care service, it is likely that another local authority will have reviewed its service and could suggest some ways of making the service more effective.

**Dr Jackson:** Efficiency gains are good, to an extent. We do not want waste. However, we have heard councils say time after time that they have reached the point at which such efficiency gains are not being made and that the service is worse or not as good as it should be. They are struggling to review services to provide a better-quality service in line with the new culture that you described. Does the system need more resources before we can get to grips with the new culture of best value?

**Oonagh Aitken:** In some areas, there is no doubt that the system needs more resources. That goes back to some of the points that were made about hypothecation, ring fencing and challenge funding. We argue that some of that money could go straight into front-line services, rather than being ring-fenced for special initiatives.

We are in a culture of best value, but we would prefer to call it not "best value" but "continuous improvement", because that is the main aim. The objective in public services will always be to achieve value for money, but the culture of best value involves continually examining how services are provided to improve them continually.

As well as a review of individual services, we would like a recognition that local authority services are not delivered in isolation from other public service agencies. Local authorities should consider best value in a cross-cutting way—to use the jargon. For example, rather than reviewing only a part of the social work service or the education service, local authorities might review all services to vulnerable young people or to older people, which cut across a range of council services. That is part of the continuous improvement culture and is preferable to considering best value only in the home care service or in the education service. We would like councils to pursue that direction.

**Dr Jackson:** Is it fair to say that that is the modernisation agenda?

**Oonagh Aitken:** Yes.

**Mr Gibson:** I have a couple of questions on the topics that Sylvia Jackson has raised. I do not think that anyone would be against continuous improvement towards best value, but concern has been expressed—I think that it was when the convener, Sylvia and I visited North Lanarkshire Council—that if authorities made big efficiency savings in year 1 and reached an optimum level of service delivery, they would still be expected to make a 2 per cent efficiency saving, which would reduce the quality of services. All committee members would be concerned about that.

If there are continual best-value reviews, will there not come a time when that will impact adversely on local authorities because of the amount of staff time that is taken up in trying to squeeze out tiny improvements? Is there not a concern that objectivity might go out of the window and that it will become difficult to measure best value?

**Oonagh Aitken:** I have two comments on that. You are absolutely right about staff resources. We would argue that local authorities must be trusted to examine the areas that they feel are appropriate, where they recognise a necessity to reconsider the design and delivery of their services. It must not become a kind of tick-box exercise in which authorities say: "We have done that this year. We will now move on to the next thing." It should be about community planning and the way in which the councils deliver their priority services for the people in their areas.

You are also right about objectivity. One way in which to ensure objectivity in reviews of aspects of council services could be to use people from other local authorities, who will have been through the same process. Some councils have invited independent people to come in and take a look at what is happening.

**Mr Gibson:** So you would like an independent audit. The Executive might impose a 2 per cent efficiency saving, but a local authority could argue that it is as efficient as it can be, given the resources that it has. Is there a need for a referee in such circumstances? We have taken umbrage with Audit Scotland on a number of occasions over some of its measurements. Audit Scotland seems to believe in permanent revolution. Do you think that there is room for a referee who is not tilted one way more than another?

**Oonagh Aitken:** I do not recognise the need for that. We are as regulated, inspected and scrutinised as we need to be, given the number of agencies in the Executive that are undertaking that work. We have established the joint scrutiny forum with the Executive, which brings together all the inspection and regulation processes. That has gone some way towards people understanding each other and each other's agendas. We would not support the imposition of a 2 per cent efficiency saving, but if it must be imposed, the money should be used for reinvestment.

**Mr Gibson:** Is there a danger of not being able to see the wood for the trees because there is so much scrutiny and accountability? Is there not an overwhelming sense of regulation rather than sufficient focus on what the efficiency savings might mean for the man or woman in the street?

**Oonagh Aitken:** I would use the phrase that you used earlier. As long as the process is joined up and there is no duplication of regulation, inspection or audit, it will work. Local authorities must be accountable and are happy to be accountable. However, we must ensure that resources are not being wasted by auditing the same factors internally and externally.

**Mr Gibson:** On the subject of non-domestic rates, you write:

> "The return of business rates to local authorities would help to restore the link between local businesses and the local council and its services."

In areas such as Glasgow, where the council puts a net £63 million into the pool, that would be of tremendous benefit. However, other councils, such as Midlothian Council, which takes about £12 million from the pool, would be disadvantaged. Would you support a restructuring of the way in which grants are distributed, if non-domestic rates were returned to local authorities?

**Norie Williamson:** That area would need consideration. In my introductory remarks, I said that one of the key considerations would be resource equalisation. That would clearly come into the scenario. We would effectively be back to the situation that we had before rate pooling came in—I think that was in 1989. In that scenario, there was an equalisation adjustment in the calculations to recognise the different capacities of individual councils to generate income from non-domestic rates.

**Mr Gibson:** Obviously, you are well aware of the reasoning that the Government of the day gave for introducing rate pooling. It was concerned that the number of ratepayers was relatively small and that a local authority that did not have a pro-business agenda could easily put rates up to such an extent that those rates drove businesses out of the local authority's area and, indeed, into bankruptcy. How would you prevent such a situation?

15:45

**Norie Williamson:** That comes back to the concerns that were mentioned earlier about the need to recognise the perceptions of the non-domestic rates practice that was in place in the past and to build constructive relationships and consultation arrangements between the business sector and local communities.

**Mr Gibson:** Would you want to lock that into any discussion on rates, for example, so that there would be full consultation with the people who have to pay them?

**Norie Williamson:** There needs to be consultation, yes. One of the things that I hope we will develop is some kind of guidance for councils that will set out arrangements that they could follow when discussing issues with local businesses.

**Mr Gibson:** What I am getting at is not just the possibility that a local authority could skyrocket the rates, but that another local authority could plummet the rates in order to attract more investment at the cost of front-line services. Do you think that there would have to be parameters within which councils would have to operate? Do you think that councils should have the ability to move rates up or down a certain level annually or triennially, or do you think that that should be completely up to the local authorities?

**Norie Williamson:** That is covered in the submission, midway through the section on non-domestic rates.

**Mr Gibson:** I know. Unfortunately, your submission does not go into the *Official Report*. That is why we have to quote from it extensively to get it into the *Official Report* and get your views out to a wider audience.

**Norie Williamson:** A couple of possibilities—and they are only possibilities—immediately spring to mind. The first is to link rates to the inflation index. That would effectively just be to continue the current arrangements, uprating by the retail prices index. The second, and perhaps more favourable, route would be to give some kind of guarantee or safeguard to the local ratepayers. The level of increase in rates could be linked to the level of increase in council tax and some kind of upper and lower thresholds could be set. There would be margins only at the edges of those thresholds. That would safeguard against the concerns about rates rocketing or plummeting depending on the circumstances, as Mr Gibson said.

**The Convener:** I point out that the submission is on the Parliament's website and therefore in the public domain.

I will change direction briefly. In your written evidence, you mention the principles that you believe should underpin a simplified grant distribution formula. Can you tell me what you mean by a simplified formula? Do you mean that there should be fewer elements in that formula or that the new formula should be derived in a different way from the existing formula?

Have you identified any areas in the GAE that you believe are particularly flawed? If so, what are they?

**Norie Williamson:** That raises a number of issues. The grant distribution as it exists worked fairly well in the pre-reorganisation scenario of nine large regions that were able to swing money within their areas. It does not sit neatly with the 32 diverse local authorities and has been a difficulty since reorganisation in 1996. It now has to be addressed. There have been various transitional mismatch arrangements to try to overcome the difficulties, but the fundamental issue has not been addressed. Now is the time to sit down, address that and come up with something that is far simpler and far more transparent. In the system as it is, there is a significant blur in the formula between statistically driven distribution and distribution driven by judgment—perhaps political judgment. Whatever arrangement is put in place needs to make that difference clear so that clear decisions are taken.

Although the end results need to be simple and clearly understood, the process that is gone through to develop the new arrangement has to be complex. It has to recognise all the varying factors that affect councils, such as demography, deprivation and poverty or rural issues. There are various factors at the margins. The process is not just as simple as basing distribution on, for example, population. A consequence of the balance of funding is that, because of the gearing effect, the grant distribution system is given much significance. In our evidence, we suggest that the grant distribution system cannot solve the problems of overall inadequate resources. That has to be addressed.

You asked whether there were concerns about existing GAE distributions. One concern that I wish to highlight is deprivation, a fundamental review of which was undertaken last year. Largely because of the technical nature of the grant distribution process, the results were not as fulfilling as we had hoped. That issue needs further consideration. We need an independent assessment of the level of resources that need to go into the system overall. The assessment should consider not only the main aggregate external finance system, but all the other pockets of money that come to local government, and how they are pooled together to tackle social deprivation issues.

**Dr Sylvia Jackson:** You said that the research on deprivation was not as full as it might have been. In what areas? Are you thinking about identifying particular pockets of deprivation, or are you thinking about types of deprivation such as rural and urban?

**Norie Williamson:** The research was not as full as it might have been, because the parameters that were placed on the research at the outset were largely to do with looking at redistributing money within the existing AEF system. We should open up the issue and consider all deprivation moneys across the whole assigned budget, and how they can be pooled together, instead of being separate pots of money. This goes back to the ring-fencing argument once again. If those moneys were pooled together and directed to particular areas, subject to monitoring and outcome-type arrangements, it would give local authorities more flexibility to tackle the problems on the ground.

**Dr Jackson:** Could you give us more information on how that could work better?

**Norie Williamson:** Do you mean the system itself?

**Dr Jackson:** Yes.

**Norie Williamson:** I keep coming back to the fact that our submission is a framework document. We hope to consider further the issue that you raise. The first stage is to identify the various pots of money and how they can be pooled together. The outcome of the review was a self-distribution arrangement within the existing system. There were some concerns about the interim adjustment for the current financial year. Approximately £21 million was put in to address deprivation issues.

The only additional money that is transparently being put into the settlement next year for deprivation is in the GAE assessment for teachers, which has gone up by about £12.5 million. I have been told that the rest of the money to address deprivation has gone into the GAE system, but it is not transparent. We would appreciate a full review on opening up that process.

**The Convener:** Thank you for your contributions today. I have a couple of things to say. First, the committee is interested in the task groups that you are going to set up. Perhaps we could have some feedback on them, particularly the groups that Kenny Gibson mentioned, such as the group on local authorities' lack of powers to invest and borrow. We are interested in the answer to my question on your position vis-à-vis new taxes. Hypothecation rears its ugly head again. The Scottish Executive gave evidence before you, and there is a difference of opinion—let me put it that way—so you may need to get round the table again.

The issue of pots of money has not gone away since the committee first addressed this matter when examining the McIntosh report. Councils were telling us about pots of money then. It is not only that we have to know that there are pots of money, we have to know where they are, why they are there, the amount of officials' time that is taken up and why you do not get what you thought you should. We do not seem to have moved far on this issue, which is worrying.

The Executive did not seem too enthusiastic about examining council tax banding. Your point is well made that band D is not where it was when the system was first set up. The committee has raised this issue on other occasions, and we are keen to see how it develops as far as you are concerned. Gil Paterson said at one point that I had tipped him the wink that you would be back. Given what I have just said, I guess that you will be back. Thank you for your contribution. Have a safe journey home. You are lucky that you are leaving. I am frozen and I cannot go until we are finished.

## Subordinate Legislation

**The Convener:** We have in front of us a Scottish statutory instrument: the Local Government Pension Scheme (Pension Sharing on Divorce) (Scotland) Regulations (SSI 2001/23). The instrument was sent to us some time ago and no comments have been received. The Subordinate Legislation Committee has considered the instrument—its report was included in the committee papers—and draw our attention to the regulations.

In its report, the Subordinate Legislation Committee mentioned that the questions raised in respect of the instrument related to matters of drafting rather than policy. Members may wish to note the response from the Scottish Public Pensions Agency, which was included with the papers. No motions to annul the instrument have been lodged.

Does the committee agree to make no recommendation on the Local Government Pension Scheme (Pension Sharing on Divorce) (Scotland) Regulations (SSI 2001/23)?

**Members** *indicated agreement.*

**The Convener:** Thank you.

15:57

*Meeting continued in public until 16:00.*

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