LOCAL GOVERNMENT COMMITTEE

Tuesday 13 March 2001
(*Afternoon*)

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LOCAL GOVERNMENT COMMITTEE
8th 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

Jimmy Andrews (Glasgow City Council)
George Black (Glasgow City Council)
Jim Dickson (West Lothian Council)
Alan Logan (West Lothian Council)
David Sawers (Angus Council)
Sandy Watson (Angus Council)

CLERK TO THE COMMITTEE

Eugene Windsor

SENIOR ASSISTANT CLERK

Irene Fleming

ASSISTANT CLERKS

Craig Harper
Neil Stewart

LOCATION

Committee Room 1

Scottish Parliament

Local Government Committee

Tuesday 13 March 2001

(*Afternoon*)

[THE CONVENER *opened the meeting at 13:45*]

Items in Private

The Convener (Trish Godman): The meeting is now open, comrades. Agenda item 1 is an odd item and concerns whether members agree that the committee should go into private session for the next 15 minutes.

Members will notice from the agenda that, if we agree to item 1, all future items pertaining to the lines of questioning for the local government finance inquiry will be in private for 10 or 15 minutes before questioning officially starts. We will not, therefore, have to go through the procedure at every meeting.

Item 6 has to be taken in private because we will be deciding or not deciding, as the case may be, on the consultation on a relief scheme for small businesses in respect of non-domestic rates. We have to consider suggestions for an adviser.

Are members agreed to take those items in private?

Members *indicated agreement*.

13:46

Meeting continued in private.

13:57

Meeting continued in public.

Local Government Finance Inquiry

The Convener: I welcome James Andrews, who is the chief executive of Glasgow City Council—and whom I know, of course—and George Black, who is the director of finance for Glasgow City Council. It is good to see both of you again.

I do not know whether I am supposed to declare an interest. I know you but cannot remember you ever giving me loads of money for Strathclyde Regional Council's social work department, so I do not need to declare an interest.

You should make your presentation and the committee will then ask questions.

Jimmy Andrews (Glasgow City Council): I thank the committee for inviting George Black and me to give evidence. We are very grateful for that and welcome the opportunity to contribute to the inquiry.

From the instructions that I received, I assume that the written submission has been read by members of the committee. I do not wish to make any comments at the moment on the submission. If the committee does not mind, I would rather concentrate for a couple of minutes on elaborating on one aspect of our submission.

Before doing so, I want to add that the council welcomes very much the changes that have been made in respect of three-year settlements, three-year capital allocations and all the other changes that happened in November and December. Those changes have been positive and have allowed us to organise our revenue expenditure and capital investment better. We hope that that will lead to increased efficiency and improved service delivery, and we thank the minister, Jack McConnell, for that.

14:00

Grant distribution is very important to Glasgow because of the level of deprivation in the city and the city's metropolitan role. My personal view is that the grant distribution system, which dates back to 1970, worked well when we had the two-tier system of local government. The big spenders—on education, social work, roads and so on—were the regional authorities. Within the boundaries of those authorities, communities were mixed: there were rich areas, poor areas, leafy suburbs, rural areas, urban areas, wealthy pensioners, poor pensioners—a mixture. At the time, the grant system could cope with that. Of course, there were swings and roundabouts—you cannot have a perfect system of grant distribution—but because of the sheer size of the authorities, they could cope with those swings and roundabouts and with the scale of expenditure required.

The grant system has not been able to cope with local government reorganisation in 1996. The range and mixture of authorities are entirely different now. We have authorities with populations of 50,000 and authorities with populations of 600,000. We have authorities that are almost entirely rural and we have authorities that are entirely urban. We have authorities with large areas of deprivation and only small pockets of wealth, and we have the reverse, authorities with only small pockets of deprivation among areas that are pretty well off. The system struggles to cope with that.

We need to change the way in which we deal with grant distribution. Although behind me in the public gallery are colleagues who are finance directors and chief executives, I will say that I do not think that either finance officers or chief executives are unbiased on the subject of grant distribution. We find it impossible to be so, because we all work for particular authorities. Therefore, I do not think that committee members should ever feel that they are hearing an unbiased view on grant distribution from an officer, and I include myself in that comment. We therefore need politicians to be involved in the exercise. We need politicians to consider what they wish to achieve through grant distribution and then to take appropriate steps.

The authorities in Scotland with the highest levels of deprivation also have the highest levels of council tax. Glasgow, over the past three years, has had council tax rises of 0 per cent, 1.9 per cent and 2.4 per cent, yet our band D council tax figure of £1,120 is still 20 per cent above the Scottish average. We believe that grant distribution must be causing that problem. Over the past three years, we have taken many steps towards achieving best value. We have held council tax down, but we are still a mile ahead of the average.

A similar situation exists south of the border. Liverpool has the highest level of council tax in the UK. I would want to check this, but I think that Liverpool has had a council tax standstill for three years, but it is still experiencing great difficulty. The common thread is deprivation.

The Convener: Thank you for that introduction, Jimmy. I am glad that we are getting something right. You made some very positive comments at the beginning.

I will start by asking a couple of simple questions. In your written evidence, you say that councils should be able

"to borrow for capital investment on their ability to service future loan charges".

In Glasgow City Council's view, how might a capital finance system based on prudential indicators and affordability work in practice?

George Black (Glasgow City Council): In the present system, each authority is given a fixed limit on its consent level. That is the maximum that it is allowed to borrow, although it can supplement that with capital receipts and so on. However, if as a result of a best-value review an authority found that it had made efficiency savings and therefore had some slack in its revenue budget, and if there were a system that did not have section 94 controls but that based consents on the ability to service future debt, the savings that the authority had made could pay for future investment.

For example, if a council had saved £1 million, that money could service debt over 20 years and could service a large-scale investment up front, which could then lead to further efficiency savings. There would therefore be a double advantage in moving to a system that was based on ability to service future debt. That would be better than having a formula that limited each authority's ability to borrow.

The Convener: Have you estimated how much additional capital Glasgow could afford under the prudential system if there were no increase in central Government grant?

George Black: No, but let me put this in context. In the council's budget, we set ourselves a target in which every service department had to identify 3 per cent efficiency savings, with a further 1 per cent being delivered from the centre. We came up with £24 million—a 3.5 per cent saving. We have used that money to keep council tax down and to set education and social work priorities. However, some of that money could have been used to address the outstanding investment in our primary schools or social work homes.

I cannot give absolute numbers, but to give you a sense of the scale of the investment required, the backlog of maintenance to primary schools alone has been costed in Glasgow at more than £100 million. That kind of investment cannot be addressed under the traditional rules.

Mr Gil Paterson (Central Scotland) (SNP): It is common knowledge that most people feel disquiet about the balance between the amount of their funding that councils can raise locally and the amount that they receive from the grant system—20 per cent and 80 per cent respectively. As a way of resolving that problem, you say in your submission that you want local authorities to retain non-domestic rate income. How would that work in practice?

George Black: The setting of the business rate is clearly a separate issue. In Glasgow, we are taking account of the fact that the city needs to be regenerated. We are not looking for the ability to set the non-domestic rate, but we want to retain either the whole of the amount raised or an element of it. I will give members a practical example.

The council was involved in investment in the Buchanan Street development in Glasgow. That has worked out at a total of £25 million of development over a number of years and the council has been a major contributor. The income from rates in the area has increased by £5 million and the council, along with all other councils, will benefit from that in due course. We get a 12 per cent share. In other words, we are getting £600,000 out of the £5 million that is going into the economy of the whole country. We feel that if councils were allowed to retain at least an element of any gains, there would be an incentive for us to prioritise our investment and increase the overall wealth of the city.

Behind that proposal is an acknowledgement that the four cities—I know that we have five now, but I will concentrate on the four at the moment—are net contributors to the non-domestic rates pool. The four cities are the drivers of the country's economy. If those cities are rewarded for increasing the overall economic health of the country, surely that is to the benefit of everybody in the country, not just of people in the cities? The case that I am making is not for Glasgow alone, but for the country as a whole.

Jimmy Andrews: The £25 million to which Mr Black referred related to the resurfacing of Buchanan Street and to new lighting. Behind the scenes, there are also the costs of land assembly and those relating to the sheer scale of the developments, in development control planning terms and in building control terms. That is because of the inspection process running on for a long period. We then get the reward from that, which Mr Black talked about.

Mr Paterson: Would not the Government simply introduce mechanisms to control the extra money that you are seeking? If the Government presently thinks that it is okay for Glasgow to lose X—I think that the figure is £65 million—would not it simply set the business rate at a certain level to ensure that you do not have control of that sum?

You said that, in the past, businesses in Scotland, despite having a level playing field in relation to each other and similar rates, experienced disparity with businesses in England, because of the different valuations and system that exist there. Competitor businesses south of the border were benefiting three times as much as firms in Scotland. In some instances, their rates were a third of those in Scotland. If we gave control back to local authorities, would not the same effect be experienced again?

George Black: I will take those questions in reverse order. I clarify again that we are not seeking to control the setting of the business rate. The Scottish Executive would take a view on a national rate. There would be no disadvantage to businesses in Glasgow compared with businesses in other parts of the country. Any perceived disadvantage between England and Scotland would be for the Scottish Executive to address, not for local councils.

If we were to prioritise investment, and that led to businesses coming into or expanding in Glasgow, we would ask for a share of that, over and above the share that is allowed for under the present system. We would not be taking money away from any other council, because the money is not there at the moment. That would happen only if the council prioritised development within the city, for example through land assembly and its policy on the green belt. The regeneration of the Clyde is perhaps at the forefront of the council's mind at the moment.

I see this as a win-win situation, but we need to be able to make the investment up front to bring in the additional rates income thereafter. There is a lead time to that.

The Convener: Are you asking for the end of equalisation with the grant system?

George Black: Not necessarily. I do not want to underplay the council's hand. There could still be equalisation of income, but it might be a matter of saying that the element over and above a certain level or percentage of gain would not go into the non-domestic rates pool, but would stay with the authority. In other words, the authority would be rewarded for its efforts to generate additional income.

Mr Kenneth Gibson (Glasgow) (SNP): In paragraph 4.6 of your submission, you state:

> "there is no clear incentive for Councils to take steps to increase the local NDR tax base, for example by encouraging development opportunities."

Can you give me any examples of Glasgow City Council rejecting a development opportunity, simply because it would not generate additional local tax revenue for the council? How are the council's policies affected by the lack of incentive to increase the non-domestic rate base?

George Black: There is a link between that and the earlier question about councils' absolute consent level and the need to widen it. Every council in the country is restricted in the amount of investment that it can make. It is a matter of prioritisation. At the moment, the policy gains for the council would come from investing in education and social work in areas where that would provide a short-term benefit to the council and the citizens.

To prioritise development work, we need to take a longer view than two or three years. I cannot point to an instance when the council has recognised a development opportunity but has not gone ahead with it because it cannot keep the money from non-domestic rates. When the council prioritises investment, it considers the resources that it has and assesses the immediate need. For a council, that immediate need would be education, social work and roads and transportation.

The biggest example that I can give you of current investment in long-term regeneration is the M74 project. Glasgow City Council is putting a significant amount of its road resources into that project, not because the M74 is a road, but because of the project's regeneration potential. The road will not be completed, however, for about seven years. That takes a great deal of faith on the council's part. It is setting aside about £5 million a year over the next four or five years to meet its commitment, at the expense of immediate investment in primary schools, social work and roads and transportation. It is an issue of timing and prioritisation.

14:15

Mr Gibson: Although Glasgow City Council would really like to keep the net contribution of £56 million a year, I realise from your comments and from paragraph 4.7 of your written submission that you do not think that that is realistic, unless the Executive puts £56 million in the pot.

In that paragraph, you state:

"If allowing Councils (or Cities only) to retain all of their NDR income is not considered practical then Councils should be allowed to retain at least a portion. This could be achieved by allowing Councils to retain all or part of the annual growth in income over and above that due to changes in the national business rate."

What would happen if, allowing for inflation, there were no growth? If we were in a recessionary situation, would you expect the Scottish Executive to make good the loss, or would you be willing to take the bad years with the good?

George Black: If we agreed in principle, I am confident that officials could come up with practical arrangements to address those concerns. There would have to be an acceptance of the rough as well as the smooth. That could be managed over a period of time, and not necessarily in one year in isolation. We made the point in our submission to get the issue on the table as a matter of policy and principle. I emphasise that I do not see any difficulty in getting officials throughout the country to come up with practical arrangements. We need an agreement to put in place that policy. That is what we have tried to concentrate on.

Mr Gibson: I notice that you have not included in your paper any alternatives to the local taxation system. Have you examined the ideas of local income tax or sales tax? We are trying to do a fully comprehensive review of local government finance and I wonder why Glasgow City Council has not proposed any alternatives to the existing system.

George Black: From my point of view, as director of finance, I point out first that the collection difficulties associated with council tax are well documented. I could go into the reasons for those difficulties, but we in Glasgow believe that the council tax system, if improved upon, could be an efficient and effective local taxation system. Considering alternative systems at this point would be a diversion.

Mr Michael McMahon (Hamilton North and Bellshill) (Lab): You have made a strong case for the city of Glasgow. As someone who represents a constituency adjacent to Glasgow, however, some aspects concerned me. You gave the example of the Buchanan Street shopping centre. When it opened, alarm bells were set off in Lanarkshire, because of the impact that was felt at the Plaza in East Kilbride and in Cumbernauld town centre for example, and because of the general impact on the town centre regeneration programme in Lanarkshire.

Business communities in Lanarkshire have said that 50 per cent of per capita retail spending by residents in Lanarkshire is spent in Glasgow. You made a strong argument about Glasgow and the other cities being the drivers of the economy. Under your proposals—and if the money was spent in Glasgow—you would retain not only the non-domestic rate collection there, but the jobs. Is not that a detriment to the surrounding areas? If that could happen in Glasgow, it could happen in Dundee or Aberdeen, where the surrounding areas would also suffer. If your argument is based solely on the benefit to Glasgow, it has a downside.

Jimmy Andrews: As officers, we will have to try to get across better the fact that we are not suggesting that the £56 million net that we contribute to the pool should come only to Glasgow. We are not so unrealistic. We appreciate that this is a no-win game. If we gain £56 million by retaining the business rate money, someone else loses. We are suggesting that we should stay with the unified business rate and keep the distribution system broadly as it is, but that when the city ploughs money into regenerating Glasgow, we should be able, at least, to retain the buoyancy that further regeneration causes.

We are talking about the additional money that flows from an investment. We gave the example of Buchanan Street, which we were involved in along with other organisations such as Scottish Enterprise Glasgow. We spent £25 million on resurfacing Buchanan Street. We spent money on lighting, legal expenses and other aspects. By doing all that, we got more business into Buchanan Street and increased the pot by £5 million. We wanted you to take the £5 million into account for distribution purposes. We were not saying that the full £56 million should be left willy-nilly with the city. George Black also said that that is just a suggestion on a piece of paper. If you want more creative suggestions, I am pretty sure that officers can provide them.

George Black: I would not presume to put a case in support of South Lanarkshire Council, but other areas of Glasgow need investment as a result of the concentration of investment on Buchanan Street. The council has invested money up front to regenerate that area, but it must also target other areas, such as the Trongate, to ensure that they do not suffer. We must not just move business about. We must ensure that business increases in totality in the city.

Mr Keith Harding (Mid Scotland and Fife) (Con): Your submission shows that your council is broadly satisfied with the council tax system, but identifies three potential improvements. The first relates to the number of bands for council tax. Have you undertaken any research into the likely effects for Glasgow and the rest of Scotland of possible changes in the number of council tax bands and/or the relationships between bands?

George Black: Our proposals for improving council tax are just that—improvements to a system that is basically working well. We are not suggesting significant change. In Glasgow, about 75 per cent of properties are in the lower bands. From memory, I think that less than 0.5 per cent of houses in Glasgow are in the top band. That seems to be an imbalance, which must be studied. Refinement would be involved. We do not think that that would have a significant impact on the city or the economy.

We are considering whether it is fair that there is a vast concentration at the bottom end of the banding system. In a system of eight bands, it would be expected that there would be a spread over the bands and that bands at the top end would not be almost of academic value, as in Glasgow, where few properties fall into the top category. I do not want to emphasise the change that would occur as a result of the refinements. We are concerned about whether the tax is deemed to be fair and to be keeping pace with changes that are taking place. I think that the refinements would improve collection.

Mr Harding: Your proposals could have a material impact in some affluent areas, where many band F, G and H properties might be created. Are you looking for an overall increase in tax take?

George Black: No. The city has a policy of attracting what might be termed middle-class families into middle-valued houses. That is our target. We do not have a policy of moving people into the top bands. There are two strands. We are talking about fairness. We think that we can increase the tax base with the policies that we have in place—investment in our secondary schools, the M74 project and the regeneration of the city. Those policies should attract families into Glasgow and away from other areas.

Mr Harding: You also mention the extension of the council tax rebate system to water and sewerage charges. Do you have any idea of, or have you done any research on, the likely cost of that to Glasgow?

George Black: The rebate scheme that has been proposed would have minimal impact on Glasgow. Under that scheme, about 75 per cent of people who would be regarded as being on low incomes would not benefit, so we do not think that the current proposal would address the issue in Glasgow. If you are looking for numbers to substantiate that, I can obtain them.

Mr Harding: Your submission suggests that we extend the council tax rebate system. I am not asking about any other proposal. The council tax rebate can be 100 per cent in some cases. What would be the impact of that and its cost to Glasgow?

The Convener: If that rebate were extended to water, what would be the impact?

Mr Harding: Your submission says:

> "The present system of Council Tax allows for a 100% rebate for those households with the lowest incomes. This system of rebates urgently needs to be extended to Water and Sewerage charges which are presently billed and collected along with Council Tax."

What would be the cost to Glasgow of doing that?

George Black: I will have to come back to you on the exact figure. Benefit payments for council tax in Glasgow amount to about £72 million. That is based on our average band D charge of £1,120. Taking on board the water charges, which are in excess of £200, you can work out a relationship. I can come back with the number, if that would help.

When the McIntosh commission's proposals about limiting rebates to higher banded properties were published, we made a submission, which I can make available too.

Mr Harding: That would be helpful. Your submission also says that you feel that revaluation should take place. Should that happen at the same time as revaluation of business premises? Should it happen regularly?

George Black: There is a case for regular updates. I am not sure whether there is a strong argument for doing that at the same time as business revaluation. I will put that in broad context. If a 100 per cent increase in prices is taken as a stable point, prices will have risen by 20 per cent above average in Edinburgh, for example. In Glasgow, the value of houses will have risen by 20 per cent below average. The gulf between the values of houses in the cities, which continue to be valued at their 1991 prices, is quite wide.

Iain Smith (North-East Fife) (LD): Your opening presentation dwelt on the grant distribution system. Glasgow receives the highest per capita grant of any mainland authority—about 25 per cent above the average. Given that, why do you think that the present system disadvantages Glasgow? What are the main aspects of the system that disadvantage Glasgow?

George Black: We can bandy figures about, but the headline figure per head of population—if we believe that distributing moneys on the basis of population is an appropriate way to do it—in Glasgow is the highest of any mainland council area. That figure includes all the loan charges that have been incurred under the consent levels given to the council by previous Governments. It also includes police costs, and Glasgow's share of those costs is higher than average. There are other issues as well, which I do not believe it is appropriate to include in the headline figure.

If we move to the other end of the equation and stick with the figure per head of population, we see that Glasgow gets one of the lowest spends per head of population on education, which is the biggest service provided by any council. If you were to examine below the surface, you would find that there are counter arguments to the headline argument.

14:30

Iain Smith: I was simply putting the matter in context and asking why you think the present distribution system is unfair to Glasgow. What changes would you like to be made to the grant distribution formula?

George Black: The point that I was trying to make is that we do not see why expenditure on education per head of population in Glasgow should be lower than that in other areas of the country. There is no argument to substantiate that.

I could go into detail about the changes to the system that we would like. I guarantee that you would get 32 different arguments from 32 different councils. It takes us back to a comment made earlier about the role of politicians. As a matter of principle, if the political policy is to direct resources to areas of need, such as social justice, the distribution system should assist in the delivery of that policy and not work against it. I am not talking in support of the policy; I am saying that the grant distribution system should be a vehicle for delivering whatever policies happen to be in place.

Jimmy Andrews: Let me cite one of my favourite examples. The grant-aided expenditure for special-needs children is based on the population of children between the ages of two and 19. In Glasgow, those children comprise 12 per cent of the population, but 19 per cent of children Scotland-wide require special education. Fellow chief executives and directors of finance will tell you that classification is a local decision. I do not believe that. In my view, parents will not allow their child to attend a special education school unnecessarily. Nobody in Glasgow holds the view that we should force children into special-needs education if mainstream education suits them.

Iain Smith: That is a useful example. Are there other areas in which you feel that the present distribution formula does not properly reflect the social justice agenda?

George Black: The council made a lengthy submission to the distribution committee when it set out its policy of trying to come up with measures to take account of the impact on services of deprivation. None of those measures was put into practice. Although, in most cases, their plausibility was accepted, agreement could not be reached on a practical solution for implementing them. I can make that submission available to committee members.

Iain Smith: I am sure that it would make interesting bedtime reading.

You seem to be arguing that the present formula is too simple, because it is based on simple population figures, and that you would like a more detailed and complex distribution formula.

George Black: No. The present system is highly complex. Changes have been made to simplify it in years two and three. However, I suggest that it is more complex and difficult to understand as a result of those changes. An alternative proposal was considered, to simplify the system to include a small number of factors, of which deprivation was one, but that proposal was rejected.

There is evidence to suggest that it would be possible to establish a simple system that takes account of deprivation, population growth and reduction and the need for investment in roads. However, I do not think that 32 individual councils would agree on it.

Iain Smith: I am sure that they would not.

Mr Gibson: Is it true that Glasgow City Council's share of local government expenditure, as a proportion of Scotland's share, has declined over the past few years since reorganisation and that, while Scotland is getting a Barnett squeeze, Glasgow is getting a local government version of the Barnett squeeze?

Let us return to the issue of council tax. You are defending the council tax system. Section 6 of your submission states:

"by and large Council Tax has been accepted as an appropriate method of local taxation."

If that is true, why is the level of collection so poor? I understand that Glasgow has the lowest level of council tax collection. Does not that have an adverse impact on those who pay their council tax? Does not it give those who are unsympathetic towards Glasgow ammunition to throw at the council? Would not another system be more appropriate, given that the levels of poverty and deprivation in Glasgow make it more difficult for you to bring in as much council tax income as you would like?

George Black: I welcome the opportunity to address that question. Ill-informed statements have been made about council tax collection in Glasgow.

The Accounts Commission and Audit Scotland have a measure, which is cash collection during the year of billing. That is an important measure of the ease with which councils can collect all the council tax that is due. In Glasgow, the overall collection level for council tax sits at 92.5 per cent. We believe that that figure will rise to 93 per cent this year as a result of the introduction of early billing. That 92.5 per cent compares with an average for Scotland of something like 95 per cent. The difficulties in Glasgow should not be underestimated, but Glasgow is not far off the mark in its council tax collection.

Mr Gibson: I am pleased that you have been able to clarify that.

Is it correct to say that half the poorest 10 per cent of districts in Scotland are in Glasgow, representing an eighth of the population?

Jimmy Andrews: The correct figure is more than 60 per cent of those districts.

Mr Gibson: More than 60 per cent. That is why you believe Glasgow City Council needs a higher share of grant than it currently receives.

Let us move on to another issue. In your submission, in the section on capital investment, you write:

"Councils have continued to explore opportunities for securing sustainable capital investment through Public Private Partnerships. However, if future projects are to continue to provide high quality services at an affordable cost, then central government support will continue to be required."

Do you believe that Government support should be provided indefinitely? If so, at what level should it be set?

George Black: There is not necessarily a uniform formula to be applied to all public-private partnership projects. Much has been written about the merits and demerits of PPP, but we should consider all such projects individually. Through traditional procurement in the public sector, there will be good and bad projects; that is the case in all walks of life. In Glasgow, we have a good PPP project in our secondary schools, but I would not be prepared to defend every PPP project that is under way.

Significant support was received from central Government towards the cost of the Glasgow project. That support enabled a high-quality project that was not just about the refurbishment of buildings, but which looked ahead to the integration of information and communications technology to change teaching in the classroom. We could have had a project that did not need that level of Government support. It would have been affordable and would have represented value for money. However, it would not have led to the increase in academic attainment that has resulted from building in ICT provision. That is an example of the added value that can come about through additional Government support.

Mr Gibson: Following on from your comments on public-private partnerships, you write:

"The recently introduced Modernising Government Fund is simply too small to meet the needs of all Councils."

Can you expand on that statement?

George Black: The announcement was of £25 million for councils to develop PPP proposals. Glasgow got £150,000. That will enable a proposal to be developed, but unless there is Government support to enable a quality project to be delivered at the end of it, getting support to develop the idea will not take us much further.

Mr Gibson: So what would be a realistic sum?

George Black: If I was to give a realistic sum, it would be for developing a project in Glasgow; it would not necessarily be for developing projects in other councils. I would not want to be pinned down to an absolute figure, but we would be talking about a significant amount of resources, from outside and inside the council, to develop a full proposal. Significant support would then be needed to enable a quality project to be produced.

We mentioned the difficulties around primary education in Glasgow, but there are also difficulties with roads and transport infrastructure and there is a need to invest in ICT for the future. Those issues cannot be addressed within the current level of borrowing consent. If we had a system that was built on prudential safeguards that allowed alternatives to PPP to be developed, PPP could be used where it was most appropriate, but the PPP alternative would not have to be explored.

Mr Gibson: I have one final question, which I asked previously but which was not answered. More than a year ago, I asked the previous Minister for Finance a written question on Glasgow's proportion of local government expenditure in Scotland. Apparently, Glasgow's share of aggregate external finance had fallen from about 15.7 per cent to about 14.7 per cent of the Scottish total up to the time when the minister answered the question. What impact has that had on local government services in Glasgow?

George Black: I am sorry that I did not answer that question. I can confirm that from 1996-97 the council's share of aggregate external finance reduced. Our research shows that, in real terms, the level of aggregate external finance for Glasgow at the end of 2003-04 will be about £50 million less than in 1996-97. The impact of that reduction is well documented. We have had council tax increases of 19 per cent, 22 per cent and 9.4 per cent in the three years since 1996-97. We have had about 4,500 council job losses. We had what is commonly termed a double whammy; we had to reduce services while dramatically increasing council tax. That is hard for the public to understand. The evidence can be seen.

The Convener: If there were one thing that you could do to change the existing local government system of finance, what would it be?

George Black: The major issue, which Jimmy Andrews identified, is the grant distribution system. I echo his comments about the fact that if there is to be a review of replacements for the system, people with unbiased views and an open mind will have to be found to do it. They will have to consider the experience in other areas of Europe and elsewhere in the world. Such people will not be easy to find in the local government community in Scotland. That is a call for an independent examination of the issue.

The Convener: As long as it is not a call for independence, that is okay.

George Black: I would, of course, be prepared to contribute to that.

The Convener: Thank you for your contribution. This is a complex subject, as you will agree. The paper that you submitted was good and it addressed the points. There are a couple of things that we picked up, in answer to Keith Harding's question on water and sewerage, that we could do with some figures on, which you will provide. It would also be good to have the submission that you prepared on the grant distribution system, which seems to be at the crux of what you talked about. I take the point that 32 different arguments will probably come our way. That will be for us to sort out. As I say to everybody, we may have to ask you to come back, but I am sure that you will be delighted to do so. Have a safe journey home.

Jimmy Andrews: Thank you, convener.

14:45

The Convener: We now welcome representatives of Angus Council. We have with us Sandy Watson, who is the chief executive, and David Sawers, who is the director of finance. You were sitting at the back, so you know the procedure. If there is something that you wish to say, you have a couple of minutes to do so. Then I will open up the meeting for questions.

Sandy Watson (Angus Council): Thank you for inviting us to give evidence. We welcome the fact that the Local Government Committee is undertaking a review of local government finance, because although there are a number of recent developments that we applaud, and which represent steps in the right direction—in particular the abolition of spending guidelines and firm three-year settlements, in terms of revenue and capital—they do not amount to the full, independent inquiry that McIntosh recommended and which local government across the board regards as necessary. We hope that the committee will focus on the review in a way that acknowledges that the finance system is a means to an end. We must all be clear about the end for which we are aiming.

The Angus Council submission concentrates on the distortions caused by the fact that the local taxation base is too small and on the lack of accountability that is inherent in the present balance of funding between central and local funding. We are of the view that the narrowness of the local tax base, with the resultant gearing effect, significantly distorts accountability and is unsustainable if open and accountable Scottish local government is to flourish. The current balance of funding leads to an accountability deficit, where council tax can increase significantly despite cash increases to councils. When that is coupled with the present system of ring-fencing, it can lead to confusion on the part of council tax payers as to who is responsible for the increases in council tax.

The 2001-02 financial settlement in Angus amply demonstrates the problem. The council's spending assessment increased by £8.5 million. Grant support increased by only £6.2 million, leaving a shortfall of £2.3 million, the equivalent of a £62 increase in band D council tax, or 8 per cent. The council eventually managed to reduce the increase in band D council tax to £50, or 6.5 per cent. The principal reason for the increase was the 1 per cent reduction in the Government's grant to the council's core budget in 2001-02, which in itself translated into a £42 increase in council tax.

Our submission concentrates on three main options. If it is agreeable, David Sawers will give a brief overview of them.

David Sawers (Angus Council): As Sandy Watson said, there is a need to consider the lack of accountability that is inherent in the present balance of funding between central Government and local government. The choice before the committee is whether there is a will to recommend developing a finance system that supports independent, locally accountable and responsive local government, or whether local authorities are merely to become agencies of central Government and are to be directed to do what central Government wishes.

Our submission clearly favours locally accountable local government and focuses on three main points. First, there are the implications of replacing or augmenting—which is probably more practical in the short term—the council tax system with a local income tax system.

Although it is clear that local income tax would be a more progressive taxation system than the current council tax system, as it would be related directly to income, we all recognise that there are practical difficulties in devising and administering yet another taxation system. However, local income tax should not be ruled out without detailed consideration. Certainly, when we looked at the remit of the committee's inquiry, we were of the view that local income tax should form part of the committee's detailed consideration.

The second point on which we want to concentrate is the need to re-examine the council tax system to consider such issues as revaluation of domestic properties, review of current tax bandings and changing the existing arrangements for council tax discounts on second homes.

The third point is the possibility of giving local authorities more control over non-domestic rates, given that the fixing of rate poundages is now devolved to the Scottish Parliament. We recognise that local taxation is a big area. If we are to make significant progress in the short term, the creation of a new taxation system, with all the problems associated with that, would create difficulties. Accordingly, we suggest reform of the council tax system and the transfer of non-domestic rates to local control.

It is our view that it is time for a radical rethink of the purpose of the non-domestic rating system. If community planning is to succeed, it is time to establish a real financial link between local objectives and local businesses. That could be achieved by a return of business rates to local control or, if that is not acceptable, some sort of reform of the non-domestic rates system so that councils are able to keep a percentage of the local business rate. We are equally conscious that the business community needs to feel that it is part of the process. As part of the reform, we suggest that proper consultation arrangements are put in place.

If there is to be real accountability of a council to its electorate and if the relationship between central and local government is to be effective, local taxation has to yield more than 20 per cent of the tax base. We suggest that a 50:50 arrangement would be more practical. However, I emphasise that we are recommending a change in the balance between central and local taxation to strengthen local democracy, not to allow increases in taxation.

The Convener: Thank you. I will ask a question about public-private partnerships. You say in your submission:

> "The inadequacy of resources for capital investment has had a knock on effect in terms of local authority involvement in Public Private Partnerships."

You go on to say:

> "local authorities should enter into PPP arrangements for the 'right' reasons not purely as a consequence of financial necessity"

and that councils should have

> "flexibility to choose between a conventional or PPP approach from a strictly best value perspective rather than out of financial necessity".

Have you ever entered into a PPP scheme when, had borrowing consent been available, you would have preferred to have undertaken a conventional capital project? If so, can you give me an example?

David Sawers: The council is involved in a PPP scheme to replace a road in Angus. We originally applied for additional borrowing consent for that. The application was turned down. When the first wave of level playing field support projects came forward, we applied successfully and were awarded an additional grant to support a PPP project.

Our initial view of PPP was that it was introduced to solve a problem in public sector borrowing requirement. That is highlighted somewhere in our submission, where we indicate that capital consents and low charges are double-counted. The original intention of PPP was to solve that problem. There is obviously another aspect to it: value for money. We certainly do not rule out considering PPP projects in the future, but we think that they should be considered on a value-for-money basis rather than as a way to get round the capital expenditure rules. Any ability to stack up on value for money is seen as a bonus. We think that the committee should direct itself towards examining the existing PSBR rules and trying to change some of the inconsistencies.

The Convener: If the Scottish Executive were to introduce a new capital finance system based on prudential rules, in what circumstances do you think that your council would be likely to enter into a public-private partnership?

David Sawers: As George Black said, every case has to be considered on its own merits. In certain circumstances, we might feel that a PPP arrangement would be the most appropriate solution. We have recently been awarded some money for a feasibility study on the possibility of having PPP projects in relation to the replacement of schools. We do not rule out PPP projects and would consider them in the appropriate circumstances.

Mr Gibson: I am intrigued by your comments on local income tax. What form do you think that a local income tax should take? Should it be set and assessed locally or centrally? Has the council undertaken any research into how such a tax might be introduced? If so, could you give us a copy of your research?

Sandy Watson: We presented a starter paper to the committee as we thought that we had a remit to present to you the kind of issues that we thought that the committee should focus on. We hope that we have fulfilled that remit. On the surface, local income tax would appear to be easier to collect and would be more closely based on ability to pay. However, we are not in a position to answer the detailed questions that you ask, Mr Gibson.

We were struck by the fact that, when the Convention of Scottish Local Authorities gave evidence to the committee on 27 February, reference was made to the setting up of a number of task groups to carry forward particular issues. Angus Council officers are more than happy to participate in a COSLA context and to go into the detail of whatever subjects the committee wants to have information on.

Mr Gibson: There are many subjects on which we would like to have more information. We would like to know whether it is intended that a redistributive mechanism be included to ensure that councils that might otherwise lose out under a system of local income tax are not adversely affected. We want to know what level of local income tax would be considered appropriate.

Section 3 of your submission says that

"there can be little doubt that the introduction of a Local Income Tax would require adequate investment and planning to introduce smoothly."

The committee would like to know what kind of lead time would be considered appropriate and what the practical difficulties are considered to be. Most of us are aware of what some of the benefits and drawbacks might be, but I hope that I have given you an idea of the level of information that we hope that Angus Council might provide.

Sandy Watson: That is precisely the kind of detail that we would want to get into in the context of a task group. There is no doubt that deprived areas with low or average incomes could bring significant difficulties in producing workable local solutions. The points that Mr Gibson raises would have to be considered in a fair measure of detail to ensure that we did not throw the baby out with the bath water. We should remember that the council tax system has been reasonably successful. As previous speakers indicated, it requires fine tuning, but we should go cannily on that point.

Mr Gibson: Why have you considered having a local income tax instead of, for example, a local sales tax?

Sandy Watson: We have identified a number of issues that we reckon that the Local Government Committee should consider. Local income tax was not mentioned specifically in the paper that was circulated to local authorities and it seemed to us that the issue merited careful consideration prior to a decision being taken.

Mr Harding: In your submission, you express concern about the effects of hypothecation, saying:

"The key problem with this approach is that it removes flexibility and discretion at the local level despite the fact that local authorities are best placed to make such local judgements. There is evidence throughout Scotland to suggest that hypothecation results in an inefficient use of resources by requiring that money be spent in particular areas regardless of whether or not there is a local need for this level of investment."

Could you outline any of the specific problems that Angus Council has faced as a result of hypothecation or ring fencing by the Executive?

Sandy Watson: Again, I am conscious of the fact that, on 27 February, COSLA presented the committee with a detailed paper that dealt with ring fencing. Most councils in Scotland contributed to that paper.

Angus Council considers that ring fencing takes away many opportunities for local initiative and creativity. Before we came to this meeting, I spoke with our director of education, who has identified the results of the excellence fund and the new community schools initiative as being relevant in this area. The new community schools initiative has been flagged as being funded by an additional pot of money that is strictly time-limited. It is not clear to us, in the context of continuing efficiency savings, how a council can mainstream new community schools projects that are obviously highly desirable but which each require funding of around £200,000.

15:00

A tangential issue that is relevant in the same context is the considerable number of pots of money that councils have to bid for under the banner of hypothecation. Our director of social work drew to our attention the fact that, for a sum of £400,000, there are five headings. He has had to put a substantial amount of work into ensuring that the money came to Angus and that the expenditure was monitored. Such money is relevant in the context of community-based placements, work on youth crime, supporting families, throughcare and aftercare, and in the general context of the results of the Kent report.

The issue goes back to the point that I made in my introductory remarks. We should take pains to ensure that we know the end that we are aiming at and that finance is available to enable us to deliver that end. In Angus Council, one part of the jigsaw that is missing is related to community planning. Local government has taken community planning seriously. With our partners within our council areas, we have identified our joint priorities. Any community plan that I have seen—and there has been a substantial number—has focused on the five areas of the economy, lifelong learning, community safety, the health agenda and the environment agenda.

Momentum is being gathered towards the delivery of a community planning process that makes sense at the sharp end. It seems to us that something is missing at the top end in terms of how MSPs and ministers work together with politicians in local government to identify the main priorities that we in the system want to work on. Let us try to agree on the bulk of them.

It may be that what we are talking about is, essentially, a slightly different version of the Scottish Executive's programme for government. We need a system that will ensure that the priorities that are identified at a national level are translated into the community planning process at a local level. Let us not get too hung up on the detail of what is happening at local level, provided that the Government is convinced that its priorities are being translated into local priorities that meet community needs.

The health agenda provides a good recent example of that. The Carter review on public health medicine and the white paper, "Towards a Healthier Scotland", have been taken into the Scottish health plan, as outlined in the recently published "Our National Health" document. The Scottish health plan emphasises the fact that it is necessary for its main messages to be taken up in the community planning agenda.

We must ensure that we have a top-down, bottom-up approach to priority setting before developing a system that picks up some of the points that Jimmy Andrews and George Black were making about the need to review the distribution system. Let us focus more on outcomes than inputs.

Iain Smith: I want to ask about Angus Council's views on the distribution system. You indicate in your submission that you are relatively satisfied with the existing system, but that in the longer term you want a simpler, more transparent system. What changes would have that effect in the longer term?

Sandy Watson: We are relatively satisfied, in the sense that, before local government reorganisation, the system was well recognised and well respected. However, things have moved on. Against the back-cloth of what I said about setting priorities, it seems to us that there would be merit in arriving at a simpler, more transparent system, provided that we do it cannily, we consider all the implications and we do not throw the baby out with the bath water. The system should be easier to understand, not only to people like you and me, but to the wider public.

You are aware of the fact that there are 89 GAE assessments at the moment, with 38 primary indicators and 13 secondary indicators. I share some of the views that Jimmy Andrews and George Black set out. I would welcome a simpler formula, which is still rigorous, which still commands support and which continues to take into account urban and rural deprivation and some of the major demographic factors such as rurality, especially as regards the islands. Jimmy and I would disagree on some of that. There is a case for simplifying the system, but we should take time to do it, and not do it at one fell swoop. Over the next couple of years, we should come up with a reasoned system, over which there is ownership throughout local government in Scotland.

Iain Smith: One of the points that has been made to the committee is that there is a trade-off between simplicity and stability in the distribution system. Do you recognise that as a problem?

Sandy Watson: I recognise that as a problem, which is why a great deal of care has to be taken to cover it. As you say, there is a balance to be struck between simplicity and stability; there is also a balance to be struck between simplicity and fairness. We can do it, though. I share the view that has been expressed by some colleagues that the present system is labyrinthine.

Iain Smith: In the current system, it is generally the case that finance officers and the distribution committee get together to work out the complexities. You mention in your submission that you want that system to be replaced. How would you go about replacing it? How would you devise a distribution committee that is less complex and—taking on board the evidence from Glasgow City Council—does not have the inherited biases of the individual officers on the committee?

Sandy Watson: I do not entirely share Jimmy Andrews's view about lack of objectivity. When the current distribution arrangements were put together, COSLA devised a protocol for objectivity on the part of officers. To a fair extent, that protocol has applied. It would be a retrograde step to remove officers, especially chief executives and directors of finance, from objective consideration of the whole pot and from coming up with rigorous ways of assessing needs.

A task group set up by COSLA should, at the end of the day, come up with an acceptable system. From my perspective, chief executives, directors of finance and politicians have to be involved. I am not certain whether that could be achieved through the officers trying objectively to come up with something to recommend to politicians, or in the context of a group involving politicians and officers. I would like to hear the arguments in the debate within a task force context. That is a major issue for us.

The Convener: When you say that you want to make the system simpler, do you mean that you want fewer separate assessments?

Sandy Watson: Yes.

Mr McMahon: Like others who have made submissions, you highlight the need for a revaluation of the council tax base. Has the council considered whether that revaluation and the revaluation of the non-domestic rate base would need to be harmonised if the non-domestic rate were wholly or partly returned to local control?

David Sawers: We have not considered that in detail, but we recognise the problem of the turbulence that would arise from any revaluations. As Sandy Watson indicated, various COSLA task groups have been set up to consider such issues. That is one issue that we would want to consider. We would want to ensure that the problem of turbulence was recognised. There may be a case for carrying out revaluations together or at separate times, but I think we all agree that there is a case for regular revaluations.

Mr McMahon: If you are arguing that revaluations should be carried out at separate times, are you saying that there should not necessarily be a linkage?

David Sawers: No. We are not arguing that there should not be a linkage. There are two ways in which to have a linkage: council tax and rate poundages could be linked at an absolute level, or increases in council tax and rate poundages could be related to a retail prices index indicator. Both those options should be explored to find out which gives the better balance.

Mr McMahon: Do you want it to be as flexible as that? Do you want to give the best result to local authorities, depending on which year suits them best, or should the linkage be fixed, so that you live with the decline in one year and the growth in the next?

David Sawers: We would not necessarily come at this from the perspective of what is best for local authorities; we would come at it from the perspective of what is best for the taxpayer. We would want to consult taxpayer groups to find out their feelings on revaluations and what measures for stability they would like to be put in place. We indicated earlier that as far as business rate poundage is concerned, we need to strengthen our relationships with the business sector to ensure that proper consultative arrangements are put in place. There should be a real link between the local economic forums that are being set up and community planning. Local government would not want to impose taxation changes. I understand that taxation is not popular and I am sure that no one would sign up for changes in taxation levels. If we are agreeing that more tax should be raised locally, the stakeholders should be consulted.

Sandy Watson: David Sawers is right to mention community planning. There have been many developments recently on the economic development front. Within the past few days, Wendy Alexander has issued the document on local economic forums and how they should relate to the community planning process. In Tayside, we have an Angus economic development partnership, a Dundee partnership and a Perth partnership. We have seen some developments recently in area regeneration—closed-circuit television, for example—where local government and the business community have come much closer together. Councils are being encouraged to increase development opportunities.

It strikes us that if local government is providing services that the business community is picking up—I am thinking of education, the planning process and infrastructure—there is a sense in which removing the financial linkage with the business sector may be a bad idea. I am conscious that, going back many years, the relationship between local government and the business community may not have worked as well as it might have. There is certainly a perception that that has been the case. Given the way community planning is beginning to develop, and the close working between the business community and local government, some kind of forum could be devised to come up with a system that provides a close financial linkage between what local government is providing and the business community.

Mr Paterson: In its written evidence, Angus Council advocates a number of changes to the council tax, including a revaluation of the tax base in three years, the introduction of additional bands at the upper and lower ends of the existing range and, as a result, the widening of the local tax base. Has Angus Council undertaken any research into the likely consequences for Angus and the rest of Scotland of changing the council tax in the way that is outlined in the written evidence? If you have that information, we would be extremely grateful to receive it. We would be interested in your comments.

Does the council believe that the council tax could generate a bigger yield if it were changed in the way that is suggested by the council? If so, to what extent would that increase in yield change the central and local funding balance in Scotland?

15:15

Sandy Watson: We have done no research. That is an area about which George Black, who spoke previously, could almost have written my comments for me.

The valuation date is April 1991, but a lot has happened over the past decade. The issue is one of fairness. We are currently working with eight valuation bands and band A is possibly set too high as an upper limit. I share the reservations that were expressed earlier about the effect on poorer families.

The issue has been gone into in detail. I do not think that changes will result in a major influx of money to local government but the public perception of the fairness of the present system is an issue. Given the fact that revaluations of non-domestic properties take place every five years, we have to ask whether it is reasonable to let a decade pass without a revaluation of domestic properties.

Mr Paterson: As you point out, non-domestic rates are revalued every five years. Have you considered a harmonising process in which the council tax base and the non-domestic rate base would be combined so that there is an overall revaluation of the tax take?

Sandy Watson: There could be merit in such a process but I would not like to commit myself at this juncture. As I mentioned earlier, if there is a task force approach, I would like the pros and cons of that process to be worked out.

Mr Gibson: The second paragraph of section 9 of your submission says that challenge funding

"usually requires local authorities to invest a considerable amount of time and effort to prepare bids often only to find that they have been unsuccessful because demand for funds always outstrips supply."

Do you believe that challenge funding discriminates against smaller councils, for example? Does challenge funding act as a disincentive to bidding, given the fact that smaller councils have to put in the same amount of officer time as councils with five times the population? Would you like challenge funding to be abolished?

Sandy Watson: Challenge funding discriminates against smaller councils and I would like it to be abolished, except for one purpose. There is a very strong case for top-slicing a certain amount of money for challenge funding bids related to what we term in the submission "lifeline" projects.

Towards the tail-end of the previous council set-up, I was in Tayside and was involved in identifying the costs of Perth flood prevention measures. Off the top of my head, I think that the cost was around £20 million. Local government was then reorganised. The new Perth and Kinross Council did not have an annual capital budget of anything like £20 million. Nevertheless, there was a serious job to be done and central Government provided the capital consent to allow the Perth flood defences to go ahead.

Such issues can affect small councils in particular. There is a lot of sense in creating a pot of money to deal with such situations. I could be accused of pleading a special case for Angus if I mentioned the Montrose bridge. Nevertheless, I think it reasonable to mention that the Montrose bridge replacement, which is acknowledged as necessary, would cost about £8 million. That is as much as, if not more than, Angus Council's total capital allocation for a year. I know that other councils are facing similar problems. It is something for which we have to plan.

Mr Gibson: So you are saying that you are against challenge funding, but that you would like a centrally held emergency fund.

Sandy Watson: Correct.

Mr Gibson: Paragraph 4 under heading 10 of your submission states:

"The GAE system has come under extreme pressure in recent years partly as a consequence of local government reorganisation but also because the amount of total resource available has been very much restricted causing an increased level of 'competition' between Councils for a share … The system has been used and abused in recent years".

In what way has the system been "used and abused"?

David Sawers: Our point is that, previously, the distribution arrangements—with the involvement of the distribution committees—were officer led. The pros and cons of distribution were decided on a technical basis. Over the past two or three years, given the strain that there has been on local government funding, the distribution arrangements have become more of a political hot potato. That will still be the case in future.

The distribution arrangements were framed in a climate in which resources were not particularly pressed, and in which there were big regional councils, which were responsible for large areas. After local government reorganisation, we had 32 smaller councils. There is now more pressure for distribution to be equitable.

Mr Gibson: You said that the pot could be considered objectively if it was a matter for chief executives and finance directors. Is not that a little optimistic? Do not all finance directors and chief executives fight particularly hard for their local authority? If they do—and given that demands on resources will always be greater than the resources available—are you seeking to change the system, as you hinted a moment ago, to ensure that the argument is clearly technical, which would mean that the to-ing and fro-ing was taken out of the system entirely, or at least as much as possible?

David Sawers: There needs to be a measure of independence about such things. There needs to be a system whereby officers are able to provide their input. Over recent years, GAE has been distributed on a technical basis and additional funds, such as better neighbourhood funds and deprivation funds, have found their way on to the scene to help those councils that felt that they were under particular pressures. Local government will always look to address its priorities in that manner, and it would be optimistic to assume that such funding mechanisms will not have to be used in future. As far as possible, core funding should be distributed on the basis of the technical merits of the cases made, rather than being influenced unduly by political considerations—although I understand that political considerations are always a big factor.

Mr Gibson: Heading 13 of Angus Council's submission is "The Definition of the Public Sector Borrowing Requirement (PSBR)". It states:

"Under current arrangements Council Tax charges levied by Councils are viewed as Local Authority Self-Financed Expenditure (LASFE) … LASFE did not count towards the PSBR under the old community charge system."

What would it mean to Angus if the requirement to include LASFE as part of PSBR were altered?

David Sawers: As I understand it, £346 million would be freed up for the whole of Scotland. That would free up about £8 million for Angus, which would mean that we could address some of the significant problems that we have with, for example, road maintenance—if the Government decided in its wisdom to allow local authorities to spend that money.

Mr Paterson: Are you in dialogue or correspondence with local authorities abroad, perhaps in Europe, that administer a local income tax system? If so, what is their general feedback? Could you share any of that with us?

Sandy Watson: No. We have had no contact with local authorities abroad. I highlight the point that Oonagh Aitken made to the committee on 27 February—we would have to be careful about such contact because of the different structures of local government in different countries, as regards the number of tiers and their responsibilities.

The Convener: At the beginning, we talked for some time about the possible replacement of the council tax. You mentioned COSLA's task group. The committee will, of course, take cognisance of that.

You also talked about hypothecation and bids, and the amount of work that surrounds them. We are aware of that. The Minister for Finance and Local Government is also aware of it; we have told him our feelings about it on many occasions.

On community planning, your comment about joint priorities is obviously appropriate. It is interesting that you commented that back-bench MSPs also have a role to play. That was a useful piece of information to give us.

Thank you for your evidence. As I have said to others, we might have to call you back. I am sure that you would be delighted to come. I wish you a safe journey home.

David Sawers: Thank you.

The Convener: Okay, comrades, our next witnesses are from West Lothian Council. They are Jim Dickson, who is the corporate manager for strategic services, and Alan Logan, who is the finance manager.

I know that you have been sitting at the back, so you know the procedure. Over to you.

Alan Logan (West Lothian Council): Thank you, convener, and good afternoon everyone.

The invitation to give oral evidence this afternoon was extended to the council's chief executive, who expresses his thanks and welcomes the opportunity for the council to participate further in the process. He is, however, unable to attend today, as he is engaged in council business in London.

As I am finance manager, I will give a brief introduction to the submission, which has been fully endorsed by West Lothian Council. As the convener said, I am accompanied by Jim Dickson, the corporate manager for strategic services.

I will emphasise some points at the outset. I support the committee's decision to conduct its own inquiry into local government finance. The recent move away from expenditure guidelines and the introduction of firm three-year funding figures are most welcome. However, changes could still be made to improve the system. They are set out in our paper, but I will summarise them.

First, I would welcome the introduction of high-level agreements between central and local government, involving joint planning, local outcome agreements and an end to hypothecation.

Secondly, there is the need for changes to the balance of funding between central and local government. The current funding arrangements are too highly geared and lack transparency. As a result, taxpayers have difficulty understanding the link between spending decisions and tax levels. The need for changes involves issues surrounding non-domestic rates, which the committee may wish to explore. I have also stated in this section of the paper that the current system of GAE assessment is overly complicated, and I have provided reasons why that is so.

Thirdly, under local personal taxation, I support the retention of council tax, albeit with refinements.

Finally, under capital finance, the introduction of three-year figures is also welcome. I have concerns, as I have with revenue, about the high level of hypothecation. Other areas of concern under capital finance are the set-aside rules for house sales, as they inhibit housing stock improvement, and section 94 rules, which are a barrier to best-value decision making through the restriction on the level of investment.

That is all I propose to say by way of introduction. However, I am happy to take members' questions on my submission.

15:30

The Convener: Before I open up the meeting for questions, I want to make a couple of comments on what I have picked up from your written evidence.

You appear to reject a local sales tax on the grounds that it would be regressive. You see some merit in a local income tax, but you reject it mainly on the grounds of cost and the complexity of businesses having to make 32 different deductions. Have you rejected the idea of a pay-as-you-earn-type system for local income tax on the grounds of its complexity for businesses and the running costs of the system? Does the council have a view on the desirability or feasibility of introducing a locally set and collected income tax as a supplement to the council tax?

Alan Logan: The council's position is that there is still strong support for the council tax system. The council considered all alternatives, but the advantages that the council tax system gives—primarily the fact that it is property based and is generally perceived as fair by taxpayers—weighed heavily on the council in coming down on the side of retaining the council tax.

Further, given that council tax is relatively new—I think that the poll tax was abolished in 1992-93—it is too soon for the turmoil of a major change to something like a local income tax. We tried to point out that there was merit in the fact that local income tax is seen as progressive, but it is fair to say that our thinking did not go as far as to say that a local income tax would be preferred, or even that we would look to levy some element of a local income tax in addition to council tax. The council's thinking did not go that far.

Mr Paterson: The council, in its written evidence, advocates a change in the non-domestic rating system to enable councils to vary the non-domestic rate in their areas within predetermined upper and lower limits. Why does the council advocate limited, instead of full, return of the non-domestic rate to local control?

Alan Logan: For a number of years, councils have been pressing for stability. We have done the sums, and it would suit West Lothian, which currently is relatively prosperous, if we were able to levy non-domestic rates and retain all the money without pooling it. We would have a financial gain of around £5 million. Equally, nothing is forever, and economies change.

In terms of stability, which local government is desperate for, we see difficulty in reverting to complete control over non-domestic rates. However, I said in the submission that there is the issue of the balance of funding between central Government and local government and there are attractions in having the flexibility to levy a tax with parameters. That was the thinking behind the council's view.

Mr Paterson: Does your council recognise nervousness about what has happened?

Alan Logan: I think so. For every local authority that is flourishing, others are not. That depends on the swing of the pendulum. You never really know where you will be.

Mr Paterson: Why does West Lothian envisage the retention of a pooling system for the income from non-domestic rates in its proposals for the limited return of non-domestic rates to local control?

Alan Logan: For the general block of money, we advocate pooling, but if there were discretion to levy supplementary non-domestic rates at the margin, the authority would retain that element.

Mr Paterson: I see. Thank you.

Mr Harding: Your submission mentions hypothecation and ring fencing, which you talked about today. Will you give us an idea of the problems that West Lothian has faced as a result of existing ring fencing? Your submission also says that specific grants should be hypothecated, in consultation. What would those specific purposes be?

Alan Logan: When the financial settlement for the incoming year was announced, the high-level figure for West Lothian increased by about 6 per cent. At face value, that was quite attractive. However, once we stripped down the figures, we found that of the additional increase of about £10 million, the increase in the excellence fund accounted for £1.6 million, for example. Under the strict rules of hypothecated moneys, that had to be a top-slicing for the council.

However, that did not mean that the areas that the excellence fund targets were a problem for the council—although the council would favour some form of local outcome agreements, which we may touch on later. Ring fencing those moneys meant that by the time we took account of the excellence fund, ring-fenced moneys for police, the fire service, Government priorities and Sutherland moneys, the relative increase for the council was very small. The jeopardy that core services were put under was a problem for the council, due to the lack of flexibility.

Mr Harding: Your submission says that the Executive should hypothecate or ring-fence only in consultation with the council. Have you any specific purposes in mind?

Alan Logan: I was probably alluding to joint planning. We have engaged in some detailed discussion with the Scottish Executive regarding any flexibility that we could gain from some of the additional moneys, which we feel are too tightly controlled. We started off by exploring the possibility of having a local outcome agreement on some aspects of the education service, which might have been linked to the excellence fund.

The council is desperate to embark on such an agreement. We have had positive soundings from the Minister for Finance and Local Government, but the agreement has still to get off the ground. The details are not totally fleshed out, but we see major attractions in local outcome agreements. We fully acknowledge that the Executive has key priorities, but we want to use discretion in how we best deliver and meet the outcomes.

Mr Harding: The part of your submission on changes to council tax does not mention revaluation. Do you support revaluation of domestic property?

Alan Logan: Yes. I thought that I had mentioned it. The council tax bands are based on values that were set in 1991. If for no other reason but to gain the trust of the taxpayers—tax is hard enough to collect—we must ensure that they understand that. Sometimes, it is difficult to understand that we levy taxes on the basis of values that were set 10 years ago. Therefore, we support revaluation.

Mr Harding: Would you revalue as is or as was? One of the attractions of the council tax was that if you altered or improved your house, you would not pay increased council tax. Council tax increased only when you sold the house. Would you remove that benefit?

Alan Logan: I do not think that we necessarily commented on that. All I would say is that we think that revaluations should be more regular than they have been hitherto.

Mr Harding: So, you would expect the attraction to be removed.

Alan Logan: I am sorry—are you asking about the upgrading of properties?

Mr Harding: Yes. A lot of people upgraded their properties thinking that their council tax valuation would not increase.

Alan Logan: That is correct. The benefit to which you refer would add to the administrative burden. I would rather deal with things by having more regular revaluations.

Iain Smith: You say in your submission that you would like the needs assessment system for grant distribution to be changed

"with the aim of simplifying the approach without detracting from its equity."

That is a laudable aim, but how would you go about achieving it?

Alan Logan: It has been made clear in earlier evidence that there is no easy answer to that question. I can only repeat what has been said:

there are some 90 GAEs in total and there are GAEs of as little as £5 million for distribution across Scotland. That seems absolutely crazy to me. If there is no room for streamlining there, there will never be room for streamlining.

Having 10 key indicators would be ideal. It will come as no surprise to the committee when I say that, at West Lothian Council, we regard our demographics as unique. Of the 32 local authorities, we have the highest forecast rise in population. Members will therefore expect me to say that demographics have to be recognised. To an extent, that has happened. However, as George Black said, you will hear 32 different views on this. We have to identify the main drivers and ensure that, in whatever system we have, those drivers are recognised in the distribution.

Iain Smith: Following that response, I do not think that I need to ask the question that I planned to ask on the impact of population changes.

Do you recognise that there could be a trade-off between simplicity and stability? If we made the system simpler, it could be less stable and changes could be greater from year to year.

Alan Logan: Yes, there probably would be a trade-off. However, three-year budgeting will do a lot for the ability of authorities to engage in proper medium-term planning. Within three-year periods, authorities will be able to build in their own stability.

Mr McMahon: In its written evidence, your council gives its full support to

"proposals to replace the Section 94 control regime with a revenue based system of prudential controls."

However, you go on to say:

"Either … a revised method of loans funding would have to be developed or notional consents would have to continue for the purposes of calculating the level of revenue grant for each council."

Why does the council believe that there would have to be separate loans funding for revenue grant if a new capital finance system based on prudential rules were introduced?

Alan Logan: I was trying to bring out a technical point. New spend and assistance for it are based on the percentage of consent received. If we abolish consents, we may have to have some sort of notional figure as a basis for distributing additional loans funding assistance. That statement is not intended in any way to dilute the view of the council that section 94 controls should be abolished. We believe that authorities should be able to invest, especially in spend-to-save schemes that will lead to benefits later on.

Mr McMahon: Does the council see any merit in distinguishing between grant support for old debt and grant support for new debt?

Alan Logan: No, we are simply reacting to the financial support arrangements that are in place for loans funding.

Mr Gibson: In the second paragraph of your submission, in the section on capital finance, you say:

"the Council believes that the requirement to use 75% of receipts from the sale of council houses to repay debt rather than fund new spending is a serious barrier to improving and maintaining local authority housing stock. The Council would support the immediate abolition of the 75% claw back."

What has been the impact on West Lothian Council of the 75 per cent clawback?

15:45

Alan Logan: Within the housing revenue account, the average debt per house has fallen, by virtue of the requirement to devote substantial moneys to the repayment of debt. The council contends that the price of that has been that less work than it would have wished has been done on the remaining properties.

The council's view is that it would be wrong if, as we continue to sell houses, we did not repay debt fully at a significant pace and level. The council accepts that. However, the point that we were trying to draw out is that the council would like some discretion—and I say that as a representative of an authority that has a low average debt per house. The council would welcome flexibility in order to plough back some of the capital moneys as investment.

Mr Gibson: Would you like local authorities to decide their own priorities, such as whether to repay debt or invest in stock?

Alan Logan: That proposal sounds absolutely ideal, although it would need to be underwritten by some rules. I come back to the point about discretion, which in many ways is linked to hypothecation. We are desperate for more discretion than we have. I am quite sure that, if the parties involved were willing, we could come up with some acceptable rules.

Mr Gibson: I refer to the section of your submission that is headed "Local Personal Taxation – Other Taxes". I know that you are not keen on a local sales tax, a local income tax or a land value tax, but you have not mentioned which supplementary local taxes, if any, you might favour.

Alan Logan: I am conscious of that. In our submission, we say that the discretion should be in the flexibility of non-domestic rates. The council had no other specific taxes in mind.

Mr Gibson: In the section on local income tax, your submission says:

"resource equalisation would be required to keep the balance between poorer and wealthier councils. Any form of resource equalisation blurs the link between local tax rates and spending decisions and hinders the development of genuine local accountability."

Given that local authorities are not all given the same per capita grant, does not resource equalisation happen already?

Alan Logan: There are advantages in the council tax system and equalisation still happens. I fully accept that the issue must be grappled with in both the council tax system and a local income tax system. The submission was trying to draw out the question of who would be liable to pay a local income tax. I presume that only people in employment would be liable, but there would be anomalies in any such arrangement in relation to the ability to pay, depending on the employment levels in each area. I am not saying that the council tax is devoid of those difficulties, but that, quite simply, West Lothian Council would prefer to retain the council tax.

Mr Gibson: Under the section headed "Public Private Partnerships", your submission says:

"PPP is not always the most appropriate method of capital procurement."

Is that solely as a result of the way in which the loan charge element of the PPP scheme is reflected in the grant distribution, or does the council have other concerns about PPP schemes?

Alan Logan: West Lothian Council has recently signed up to a major PPP agreement. When we went through the various stages in committee and at officer level, it was felt that PPP was the only game in town, given the amount of investment involved. There are issues concerning whether traditional procurement obtains better value than PPP. However, under traditional procurement rules, the council could never have aspired to the level of investment in an education project that it has just signed up for. That is a concern. I echo what David Sawers said about all such projects needing to be considered individually.

Mr Gibson: Would you like any alternatives to PPP to be introduced?

Alan Logan: In terms of cost and the level of funding, there is a 20 per cent hit that must be recognised on day one and picked up right away. Support does not seem to be on a level playing field.

Mr Gibson: Does that undermine other capital projects?

Alan Logan: Yes, given the way in which West Lothian Council is looking to bridge the gap in the early years.

Jim Dickson (West Lothian Council): A commitment must be given for 30 years, so the council has to top-slice its budget, one way or another, for 30 years.

The Convener: I have a final question, which seeks to tie up a point that Gil Paterson raised. You state that you want to retain the pooling of non-domestic rate income. Could equalisation be achieved without full-scale pooling? If not, why not?

Alan Logan: I am not sure that it could be achieved. The council took the view that, first and foremost, any system of non-domestic rates would have to provide stability. However, we have not done the sums or taken our thinking far enough to know whether it would be possible to have equalisation without the pooling and whether that would achieve the desired stability. I am not sure that it would.

The Convener: On page 3 of your submission you say:

"The Council, in keeping with it's strong support for Community Planning, would wish the business community to be fully involved in changes to local business taxation."

Although I accept that the business community should be involved in community planning, the suggestion that the business community should be fully involved in business taxation frightens the life out of me. To say that the business community would have a vested interest is to put it mildly.

Alan Logan: Yes. What I was alluding to in the submission is the fact that we could not take decisions at will on non-domestic rates that would have a direct impact on the business sector without its full involvement. Maybe the submission makes a link with community planning that was not intended, but that was the point that we were trying to get across.

The Convener: So, you think that the business community should be fully involved in making decisions about local business tax?

Alan Logan: Yes, at the margin; for the discretion element, absolutely. There have been many debates about the trade-off if a supplementary non-domestic rate were levied locally and retained by the council. The immediate question that springs to mind is, "What's in it for local businesses, given that they would have to outlay more?" In the submission, I have tried to tease out the fact that businesses are major users of services. Is it necessarily true that the business sector would not support greater investment in education, infrastructure and libraries? I would argue that the business sector has a strong interest in supporting that investment and that businesses might be prepared to pay more for it.

Jim Dickson: Within the economic strategy bit of the community plan, we have built in the business community—at the top end—as one of the partners, along with the enterprise companies and ourselves. Our relationships with businesses are pretty good. We want to engage them in the debate. The council would not want to increase their contribution from tax without businesses being sure what it was about—that would not be popular. West Lothian is an inward investment area. We would not want to raise tax for the sake of it, as that would affect our competitive position.

Mr Harding: Do you need a consultation process with the business world, as with the general public, before you increase council tax?

Alan Logan: Yes. We have consultation on general taxation, but we are talking about matters that are specific to business.

Mr Harding: Yes, but when you set business rates, you would want to consult businesses just as you consult council tax payers.

Alan Logan: Absolutely.

The Convener: If you could make one change to the local government finance system, what would it be?

Alan Logan: I got advance notice of that question; I heard you ask the same one earlier. West Lothian Council's view is that we need a formal arrangement for proper joint planning that will lead to outcome agreements, as opposed to measures of inputs. We are desperately keen to pursue that, so that would be the No 1 priority for West Lothian Council.

The Convener: Okay, thank you. You mentioned grant distribution, which has come up again and again. The problem is that we are dealing with 32 councils, which could come up with 32 different answers. Again, we have heard about community planning, although you have introduced a couple of other things. You also mentioned local flexibility—perhaps with some built-in rules.

Even today, with three quite different councils from quite different parts of the country, an underlying base is beginning to evolve, which will be interesting for us when we come to do our report. I am sure that when we finally get there, about the end of June, you will read it with great interest. I thank you for coming along and apologise that you were kept late, but I am sure that you found it really interesting sitting there waiting.

Alan Logan: Thank you.

Petition

The Convener: We have before us petition PE321, which calls on the Parliament to abolish council tax and replace it with another method of taxation. I suggest that Eugene Windsor and I write to the petitioner to advise him that the contents of the petition have been noted and that the issues that he raised are due to be considered as part of our local government inquiry anyway.

Does anyone have an objection to that?

Mr Harding: None of the witnesses suggested such a proposal.

The Convener: I do not think so.

I am prepared to write to the petitioner to say that the matter is part of our consideration. We shall be looking at the whole area of local government finance. Individuals are writing to us. All their comments will be collated and examined. I shall not just be saying, "Thank you very much, but no thanks".

Are we all agreed?

Members *indicated agreement*.

The Convener: I now dismiss the official reporters.

Mr Gibson: While the official reporters are here, I want to highlight the fact that, some weeks ago, we discussed who should be reporter to the Social Justice Committee on the Housing (Scotland) Bill and, after a vote, elected Michael McMahon. We have not had the report back from Michael McMahon and the stage 1 debate is tomorrow. Is there an opportunity for Michael McMahon to give us a couple of minutes on that?

The Convener: That is not on the agenda. There is a strict rule about items that are not on the agenda, so that gives us a problem. We can talk about it in the private part of the meeting.

Mr McMahon: During our consideration of the matter, my input referred to what I heard at the Social Justice Committee.

Mr Gibson: I am not trying to put you on the spot. You reported back when we were in private session, but something about it should be in the *Official Report*. There might be one or two things that should be recorded.

Mr McMahon: Do you want me to put down bullet points or notes in some form of report?

Mr Gibson: Aye—something like that. It is more for future reference. Otherwise, it will look as if Michael McMahon has not reported back to the committee, when we know that he has.

The Convener: We will pick that up and put it on a future agenda. I now dismiss the official reporters.

15:58

Meeting continued in public.

16:15

Meeting continued in private until 16:17.

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