LOCAL GOVERNMENT COMMITTEE

Tuesday 22 May 2001
(*Afternoon*)

Session 1

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LOCAL GOVERNMENT COMMITTEE
16th 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

Professor Mike Danson (University of Paisley)
Alan Henry (Institute of Revenues, Rating and Valuation—Scottish Branch)
Jacek Nowak (Institute of Revenues, Rating and Valuation—Scottish Branch)
Geoff Whittam (University of Paisley)

CLERK TO THE COMMITTEE

Eugene Windsor

SENIOR ASSISTANT CLERK

Irene Fleming

ASSISTANT CLERK

Craig Harper

LOCATION

Committee Room 2

Scottish Parliament

Local Government Committee

Tuesday 22 May 2001

(*Afternoon*)

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

The Convener (Trish Godman): Good afternoon, comrades.

Before we begin, I want to say that when we held our meeting last week, I was unaware of the death of Sylvia Jackson's husband and therefore I did not say anything. Today, I would like to record the committee's condolences in the *Official Report*. Some of us attended the funeral on Saturday morning and it was clear from the number of people who attended that Mike Jackson was an extremely popular and well-respected man in his community. When Sylvia comes back, she can be assured that the committee will give her all the support that she needs. This has been a very difficult time for her—Mike was a young man.

Items in Private

The Convener: I move on to the business of the meeting.

I am afraid that I must ask members to agree to discuss three items in private today. Item 4 is on the local government finance inquiry. If we do not agree to take item 4 in private, the researchers from the Scottish Parliament information centre will not be able to speak to the committee about their proposals or about why they reached their conclusions.

Item 5 is on the committee's draft report on the non-domestic rates consultation which, members will recall, we considered last week. I hope that we will be able to sign off that report today. The adviser will not be able to speak if we hold that discussion in public.

Item 6 is on the budget process. Again, the adviser will not be able to speak if we discuss that item in public.

Do members agree to discuss those items in private?

Members *indicated agreement*.

Local Government Finance Inquiry

The Convener: We move on to the local government finance inquiry. I think that we are in the middle of our inquiry, although we might be at the beginning of it—I do not know where we are with it. I welcome Rita Hale back to the committee. Rita has been keeping us on the right track.

We start today with evidence from the Institute of Revenues, Rating and Valuation. We have with us Alan Henry, who is the president of the Scottish branch of the IRRV. I believe that Jacek Nowak is stuck on a train.

Alan Henry (Institute of Revenues, Rating and Valuation—Scottish Branch): When last I heard from Jacek Nowak, he was sitting in a train on the Forth bridge.

The Convener: As Rita Hale said, his view will be much nicer than ours. If he arrives, we will be delighted if he is able to contribute to our discussion.

In any event, I know that Alan Henry will lead. Our usual format is for the witness to give a presentation, following which I will open up the discussion for questions.

Alan Henry: I thank the committee for inviting the IRRV to give evidence. We have submitted a paper that contains some background information about our organisation and sets out the ideal principles that we believe should be found in the operation of local government finance.

That said, we acknowledge that other considerations—political, social, economic and so on—also have a bearing on what is achievable. At this point, I thank Ron Skinner MBE for researching and writing much of our report. Ron is a member of our executive committee, a past president of the Scottish branch and a national council member. Previously, he was deputy director of finance at Central Regional Council.

I should also explain that I am an assessor for Dumfries and Galloway Council—I deal with valuation for rating. Jacek Nowack—the other half of our double act—is a revenues officer. I will try to cope in his absence.

The latest edition of the IRRV's monthly magazine, "Insight", was published last weekend. By coincidence, it contains a number of articles that might be of interest to members of the committee. I have brought along a few copies that committee members can take away and read at their leisure. There are articles about 400 years of rating, the national debate on property taxation and land valuation taxation.

I do not propose to go through our submission in detail; I am sure that it would be more useful if members asked any questions that they might have. However, I will highlight several salient points. First, we strongly believe in property-based taxation as part of a range of different taxes aimed at different groups. Both council tax and non-domestic rates provide a predictable yield which is difficult to avoid, is relatively easy to collect and is reasonably well understood. Furthermore, in the case of non-domestic rates, the tax base is regularly updated through revaluations and the system has been tried and tested over a long period. As I mentioned, “Insight” magazine contains an article about 400 years of rating.

However laudable the intention, relief schemes should not become so cumbersome that they are difficult and expensive to administer and so lose public credibility and understanding. The council tax must be almost unique in the history of taxation systems in that it was introduced quite quickly, is well understood and has needed practically no legislative amendments in its eight years of existence. However, if such a happy state of affairs is to continue, it is vital to keep the tax base up to date through regular revaluations, in the same way that the system of non-domestic rates retains its relevance. At the moment, the council tax is based on capital values that are 10 years out of date and that might have varied greatly in relation to each other over that period. A review of the positioning and the number of the bands is also required. Other local areas taxes should be seen as top-ups to the existing local areas taxes and should ideally focus on a different taxpayer base.

I will not say more at this time. However, we will attempt to answer the committee’s questions, although members should bear in mind the caveat that Ron Skinner wrote the submission in the first place.

The Convener: Among other responsibilities, I am charged with finding a replacement for poindings and warrant sales. In your submission, you say that you are concerned that we have undertaken to abolish poindings and warrant sales before a fair alternative has been found. Why are you so concerned about that? Furthermore, if they were abolished, what other measures would you introduce to enable councils to collect council tax?

Alan Henry: Your question goes straight to the matters on which my colleague Jacek Nowak was going to answer. Our main concern is that any form of taxation requires some means of recovery. However, we do not have a fixed view on what form such recovery should take. It is fair to say that the committee faces the same problem; it is very difficult to find a replacement, and the concern is that we could end up with a gap in the legislation.

The Convener: Do you have any ideas about how to fill that gap?

Alan Henry: No.

Mr Michael McMahon (Hamilton North and Bellshill) (Lab): I want to explore the issue of transitional relief. Your submission says that there is a strong case for the elimination of such relief by 2003. From the evidence that we have taken, it seems that the 1995 revaluation led to huge differences and swings between what people paid previously and what they were asked to pay then. Are there any circumstances in which a transitional relief scheme would be appropriate and, if so, could you describe such circumstances? If not, how would the Scottish Executive deal with the huge shifts such as those we saw in 1995?

Alan Henry: In Scotland, we have had revaluations every five years since 1961. I think I am right in saying that 1990 was the first year that a transitional scheme was introduced. That was largely on the back of the fact that a transitional scheme was needed in England, where there had been no revaluation between 1973 and 1990. There were massive changes in England because of that. Transition was not needed for five of the past seven revaluations in Scotland.

If we have transitional relief, it must be clear to the taxpayers at the outset where the money will go. Funnily enough, I was dealing with a rating appeal the other day. The managing director of the firm said to me “I do not care what the valuation is. What is my tax liability? What will it be over the next four or five years, during the lifetime of the valuation?” At the moment we are, in effect, getting annual regulations on transition. It has been outlined to a degree where the scheme will go over the next few years, but that has not been set in concrete.

I do not deal with the money side of the business, so a colleague and I sat down to examine the transition regulations to help us to explain them to that managing director. We certainly learned a lot, but it took us a while to figure out where we were going. A transition scheme must be time limited and it must be clear exactly what will happen over a given period.

Mr McMahon: You are not set hard and fast against a transitional scheme, are you? Is it only the current scheme to which you are opposed?

Alan Henry: The current scheme is coming in rather piecemeal. We could argue that transition can warp the whole system if each valuation is brought in a bit at a time. We must bear it in mind that valuation is based on rental values, but everybody rightly considers their package of property costs. They consider rent and rates almost as one item; as one goes down, the other tends to go up.

Mr McMahon: Another issue that you raised in your submission is the balance between central and local funding. You talk about that in some detail but you do not indicate the desirability or feasibility of a local income tax as a means of addressing that balance between the central take and the local take. Do you have any views on the desirability of a local income tax or a method by which the Scottish Executive could deal with taxation in that way?

Alan Henry: We have no firm view on a local income tax. My revenue friends would suggest that it might be difficult to administer and it would certainly need some clear guidance about where the tax liability started: where you live, where you work and so on. There are many well-rehearsed arguments in there. As I said at the start, we believe that property-based taxes are probably the best form of taxation, certainly at a local level. They are very much part of the community. Other forms of taxation should be considered as top-ups to that. I am afraid that I am old enough to remember that, when I studied, about 70 per cent of local revenue was raised locally. In my short lifetime the situation has totally changed.

Mr McMahon: Given that statistic, do you think that local income tax is the only way of redressing the balance? You did not say anything about that in your submission, but do you have a view on it?

Alan Henry: No, we have no view on that. That is the short answer. We have said that we think that many alternatives should be explored. We mentioned in our submission that Belgium has about 132 different taxes, but I do not know what they are and I will certainly not try to rehearse that lot. Some of those taxes bring in pennies and others probably bring in a fair amount. That brings us back to the idea of having a dog licence as a local tax, for example, to raise revenue.

Mr Keith Harding (Mid Scotland and Fife) (Con): In your submission, you say that

“electors should be able to choose between different ‘packages’ of taxation and spending”,

but you do not explain how that might work in practice. Does the IRRV favour the introduction of local referenda on councils’ spending and taxation plans?

14:15

Alan Henry: We have not taken a view on that.

Mr Harding: If such referenda were introduced, under what circumstances should councils be required to hold them? Do you have no views at all?

Alan Henry: As an organisation, we have not taken a view on that. I suggest that that would be up to politicians to decide.

Mr Harding: Having said what you did in your submission, one would expect you to come up with some suggestions on how to address the problem that you identified.

Alan Henry: We say in our submission that, as I have just said, there is a massive range of different types of tax that could be introduced and that it should be left up to the local politicians in local democracy to decide what that package should be. Different political parties might come up with different packages, or no packages. Whether a referendum was held on a local package or whether the overall package was considered is a political matter.

Mr Harding: Your submission also says that you consider that the council tax is “administratively efficient” and

“difficult to evade and avoid”.

How do you explain the fact that collection rates in Scotland are 10 per cent lower than they are in England?

Alan Henry: Jacek Nowak would have explained that to the committee well. I will tell you what I think he has told me over the years.

The most important contention is probably that council tax in Scotland is collected along with the water charges—which are not rebated—whereas in England it is not. There is a feeling among my revenue colleagues that that warps the public perception of the council tax. In effect, bigger bills go out in Scotland because there is a big water element attached to the bill, even for somebody who receives a rebate. Council tax in Scotland is therefore more difficult to collect.

I should add that the figure of 10 per cent relates to the in-year collection rate. My understanding is that in the past in Scotland we have, in effect, worked a month behind. Although the tax year starts on 1 April, the first payment was due by 1 May. In England, the collection worked earlier than that; the last payment was due a month earlier. In England there is a month more at the end of the tax year in which to pursue debt. I believe that, if the collection year worked to the end of April rather than to the end of March, the collection rate would be a lot higher than it is.

That said, I think that my colleagues would accept that collection could be a lot better. Steps are being taken to address that. Members should bear it in mind that we had a big upheaval in Scotland with local government reorganisation. In the past, the old regional councils were the collection agencies. Now, each local council is a collection agency. There were staffing problems, such as problems with getting experienced staff in place. Obviously, such a reorganisation takes a couple of years to work through in any system.

In my own authority, collection levels have increased quite dramatically over the previous two years. I think that about 47 per cent of payments in Dumfries and Galloway are now made by direct debit.

Mr Harding: Your last suggestion has been addressed. I believe that the dates of collection have now been changed. I do not understand your other argument, because council tax is higher in Scotland and water rates are higher in England. Your submission goes on to say that you have reservations about the existing banding arrangements. What changes would the institute make to the banding arrangements if it had freedom to do so?

Alan Henry: Do you mean to council tax banding?

Mr Harding: Yes.

Alan Henry: We think that a study needs to be made of the bands. I was an assessor but nobody told me how the bands were arrived at. It is interesting that they appear to be two thirds of the English bands. I am not sure whether the English bands were the basis for the Scottish bands, but it looks like they were.

We feel that there is a case for an extra band at the lower end. There are many properties at the lower end. If the property is worth £1, it is in band A. Caravans that are quite tatty affairs, for example, are in band A, as are nice wee flats. There is probably a case for an extra band.

We think that there is probably also a case for extra bands at the top end. Band G—which goes from £106,000 to £212,000—is an extremely wide band that can range in my area, for example, from a nice detached bungalow to a small mansion house. The same can be said of the top band, which covers £212,000 to infinity. Again, that is a very wide range.

However, we would like a study to find out if there are natural bands of value. I suspect that the answer is that there are, but that they are different in different places. I suppose that I must talk about my area and plug Dumfries and Galloway as much as I can. In Dumfries, very nice flats can still be bought for under £30,000. I know that because my daughter has just bought one. The top end has increased significantly in the past few years. It is interesting that in the Moffat area, prices tend to have risen quite a bit in the past few years. We think that Moffat has simply become part of the Glasgow and Edinburgh commuter belt.

Mr Harding: Have you undertaken any research into the effect that a change in bandings would have on council tax?

Alan Henry: We have not done any research on that.

Iain Smith (North-East Fife) (LD): In your written submission, you refer to the international conference in Paris in 1991 and Sir Frank Layfield's summing up and conclusions. Have you done any further work since that conference, in particular on French/German business tax, to which your report refers? Your report suggests that it might be appropriate for the UK to consider that tax. Has the IRRV looked at French/German business tax? Has it come to any conclusions as to whether such taxation would be appropriate for Britain?

Alan Henry: I am not sure whether we have. There is on-going work. There is an article entitled "Property taxes in a changing Europe" in "Insight" magazine, which I will leave for the committee. It examines various forms of taxation in several countries. Professor Peter Brown of Liverpool John Moores University has undertaken that work on behalf of the IRRV. He gives a good outline of what is happening in various countries.

Iain Smith: That is certainly of interest to the committee.

Following that, the submission refers to Belgium, where up to 130 different types of tax are available to local authorities. Has the IRRV considered any of the different types of taxation that are available to local authorities in other countries? Has it come to any conclusions that any are worth exploring as possible alternatives in this country?

Alan Henry: Not specifically. Currently, we are tending to consider land value tax, which seems to be being plugged by various quarters. I think that the Henry George Foundation of Great Britain has been funding that and considering such a tax as a possible top-up. I believe that there has been talk of a pilot scheme in Liverpool. It is a tax that is aimed at the regeneration of ground, and it is used in Philadelphia in America.

One of my colleagues, Allan Traynor from Fife, was on a fact-finding mission to Philadelphia with the IRRV recently—he is always fast off the mark when it comes to things like that—and he has written an article about it in "Insight". He has slightly watered down in his report what he said to me in private; he was not at all impressed, and he was not convinced that such taxation does what it says on the packet.

Mr Gil Paterson (Central Scotland) (SNP): You set out in your written evidence the principles that should underpin the local taxation system in Scotland. Which are the most important of those principles?

Alan Henry: The first thing to say is that all the principles are important. If a tax is to work, it must be understood by the people who are paying it; that is paramount. However, the other principles are equally valid. The system must be understood and it must have a solid basis. Ideally, it should have a known income ahead of time—which is where property taxes score higher than almost any other kind of tax—and collection should be easy.

Council tax collection was mentioned. About 98 or 99 per cent of non-domestic rates are collected, which is far higher than collection of almost any other form of taxation. With income tax or VAT, it is not known whether all that is due has been collected, but if we consider the size of the black economy, it is fair to say that a fair proportion of those taxes must be going walkies. In addition, with income tax and VAT, one does not know ahead of time what the take will be, whereas with rates and property-based taxes one does.

Mr Paterson: What about the principle of ability to pay? Should that be a factor?

Alan Henry: I was not going to read out the headings in our submission, but local taxes should be related to the ability to pay. They should also be understood, administratively effective, difficult to evade, and impartial between one person and another. It is important that there is equity. The principle is that if you get it you should pay for it, and if you pay for it you should get it. That is a double-edged sword. As I said at the start, we are talking about ideals, and ideally, locally determined expenditure should be funded by locally determined taxation. That is a fundamental that makes sense, but it is an ideal that has been recognised throughout the years.

Mr Paterson: You talked about the introduction of additional council tax bands. How many additional bands should there be? Paragraph 8 of your submission also refers to the need for revaluation. Should that revaluation take place at the same time as the revaluation for non-domestic rates—every five years—or would that be too often?

Alan Henry: In answer to your first question, we have not done any research on how many bands there should be. To a certain extent, that is a political decision, provided that it is backed by good guidance.

In answer to your second question, as an assessor, the one thing that I dread is that we have a council tax revaluation at the same time as a non-domestic rates revaluation. It would be a tremendous work load for us to cope with. Having said that, it is not beyond the bounds of possibility that they could leapfrog each other.

Five years is probably right. An on-going debate on domestic rates is about whether a revaluation every five years is right: three years has been suggested. On non-domestic rates, a revaluation every five years seems to be about right in as much as rent reviews in the marketplace tend to take place every five years. Five years would probably also be right for council tax revaluation. Time is needed to see where the market is going. Ideally, we would like to see the revaluations taking place every four or five years, leapfrogging each other.

14:30

Mr Paterson: Do you see a need to increase the number of bands to bring in additional revenue, or is it a way of making the system fairer? Do you want to secure the same take but spread evenly over a wider range of bands, or is it a way to bump up a few extra bands on the big houses to get more money in?

Alan Henry: No, I see it as being about equity. Currently, band G covers values of £106,000 to £212,000. That is a massive range, mixing apples and oranges. In order to raise more money, the relationship with what is attributable to the bands would be different. In our submission, we say that although the difference in the amount payable between the top and bottom bands is about a three-times factor, the difference in the value is something like an eight-times factor. It may well be that the amount that is attributable to each band should be examined, but that is a political decision.

Mr Paterson: In paragraph 9 of your submission, you mention the need to eliminate transitional relief. You answered a question on that earlier. In your experience, would there be a negative impact on some businesses if we did away with transitional relief?

Alan Henry: Although we are against the principle of transitional relief, I recognise that it has a use. However, it should be transitional, not on-going. We got into the situation last time round when transition carried on for more than five years and it was possible to get transition on transition. The rateable value was probably the last factor that came into somebody's rates bill—it became irrelevant. At that point, we had moved away from the system as such. Transitional relief should last for two or three years, so that businesses can budget for that increase.

The Convener: I welcome Jacek Nowak, who has finally got off his train. We are in the question-and-answer session. Please feel free to signal if you want to answer a question.

Mr Kenneth Gibson (Glasgow) (SNP): Mr Henry talked quite wistfully about rates. Would you like domestic rates to be returned?

Alan Henry: Ah, the good old days. I can remember domestic rates; I was brought up in the time of domestic rates. The answer to your question is no.

Domestic rates and non-domestic rates were based on rental values. In the last days of domestic rates, there was little rental evidence to back up most of our valuations. Non-domestic rates are different, in that there is stacks of rental evidence—there is no great problem with the tax base on that. To a large extent, the public no longer understood the system. The council tax is well understood. Everybody in the profession has been taken by the way in which the public can relate to it. If you were to ask anyone what the value of their house is, they would probably give you a fairly good answer—perhaps within a couple of thousand pounds of the right answer.

Depending on how one looks at it, an issue that is either for or against domestic rates is that the limit went right down to a pound. The system was pernickety, but if someone complained about a bus stop outside their house, one could say, "Right enough. I'll knock two quid off for that," which would make them happy.

However, the council tax does not have that degree of finesse and takes a much more broad-brush approach. If there were more bands, one could get more finesse into the system, but that would make the system more difficult. There are complaints quite frequently at the moment about disamenity in relation to council tax, but the response is, "I quite agree, but you are still in the same band". One cannot say, "Right. I'll knock £50,000 off the value, but you will still be in band G".

Mr Gibson: I understand that.

In paragraph 23 of your paper, you say:

"If the level of local authority spending to be raised by locally-determined taxation is to increase above 25%, as seems desirable, local authorities will need access to a wider range of local taxes."

In paragraph 24, you go on to say:

"Returning non-domestic rates to local control would be one way of achieving this."

Are you in favour of that?

Alan Henry: Are you asking whether we are in favour of local control?

Mr Gibson: Yes. Are you in favour of local control of non-domestic rates?

Alan Henry: Yes, as an organisation we are in favour of that, and I am personally in favour of it.

Mr Gibson: What are the benefits and drawbacks?

Alan Henry: I will bring in Jacek Nowak to answer that point.

Jacek Nowak (Institute of Revenues, Rating and Valuation—Scottish Branch): Please accept my apologies for being late. Unfortunately, my GNER train got stuck on the Forth bridge for an hour.

If the level of taxation that local authorities raise through the council tax goes beyond 25 per cent, the burden of that taxation will probably be too great for council tax payers. The return of non-domestic rates to local authority control would increase the money that local authorities could raise. However, businesses believe that things will return to the bad old days, when they were hit heavily. That is the disadvantage, but I do not think that that would happen again.

Mr Gibson: What about the anomalies that would exist between local authorities? At present, non-domestic rates are pooled—the take is pooled. Urban centres would clearly have a major advantage, whereas rural authorities such as Dumfries and Galloway Council would be disadvantaged. How would you get around those anomalies?

Jacek Nowak: Getting an improved formula base is not an insurmountable problem. Industrial areas or large urban areas take the position that the system is totally unfair as it stands. Aberdeen City Council raises £100 million, yet only £50 million is given back to that council, despite the fact that it has additional problems with traffic pollution and people coming into the city. Flexibility could be worked out.

Mr Gibson: Are you saying that the grant that goes to a local authority such as Aberdeen City Council should be cut by £50 million to make up for the fact that it gets an extra £50 million from non-domestic rates? The take from local authority taxes throughout Scotland would remain the same, so if Aberdeen were to get an extra £50 million, that money must surely come out of the budgets for Aberdeenshire Council, Moray Council and the other local authorities in the surrounding area, unless the grant distribution system is adjusted to equalise the allocations.

Jacek Nowak: You are right. The question is where one wants the burden to fall. It could fall on local authorities, but more of the burden is already falling on them, and the council tax system, as it stands, will struggle to meet the shortfall. We already have the gearing effect where, if Scottish Executive grant is cut back, authorities have to increase the council tax disproportionately.

Mr Gibson: Would it not be similar with rates? For example, Aberdeen might have an extra £50 million in income but its grant might be cut by £50 million to compensate. If the mechanism was in place, and Aberdeen wanted to raise an extra £10 million in rates, would the mechanism not simply mean that that extra money would be redistributed around Scotland? On the other hand, would you want an additional mechanism to ensure that, if the rates were cut or raised, it would impact only on that authority?

Jacek Nowak: I would certainly like more flexibility and to give local authorities a means of raising some form of additional tax.

Mr Gibson: On another issue, near the beginning of your evidence you talk about reliefs and exemptions available to non-domestic ratepayers and the need for a review of those arrangements. Do you want to make any specific proposals for changes in the hardship reliefs? If so, what?

Jacek Nowak: The issue for local authorities with hardship relief is that, because of the way that statute is currently set, authorities can grant hardship only if it is in the interests of its council tax payers. The difficulty that we face is that authorities may want to help a business but that help comes from the whole council tax pool. Horrendous pressure would be put on that pool.

Mr Gibson: So how would you change it?

Jacek Nowak: Any hardship granted should be met 100 per cent from the pool.

Mr Gibson: In your view, are the Scottish Executive's proposals for the extension of hardship relief to properties in rural areas adequate in the light of the consequences of the recent outbreak of foot-and-mouth disease?

Alan Henry: Being from Dumfries and Galloway, I had better answer that. If you asked my director of finance, he would say no, although the increase from 75 per cent to 95 per cent is very welcome. The problem that Jacek Nowak touched on is that there is, as I understand it, no definition of hardship. That is the problem that we are trying to come to terms with at the moment. As we speak, the non-domestic rates bills are going out in Dumfries and Galloway. There is a hardship relief application form with each one. We may know in the next few weeks the size of the problem and how it can best be addressed.

Mr Gibson: Can you estimate, from your own area, what the extent of the problem might be relative to the resources available to deal with it? Any ballpark figures?

Alan Henry: It is difficult to put a figure on that at the moment. There was quite a bit of talk in the press that it was possible to appeal against the rateable value on the grounds of material change of circumstances. Surprisingly, in my case, bearing in mind what has happened, I have about 330 appeals. The Lothian assessor has 760-odd, most of which are on Princes Street, I believe. If we took my appeals as an indication of what the problem is, it would appear that high street shops have a problem but that nobody in the countryside has a problem. At the end of the day, that might not be the case.

We have acted fast to put out as much information as possible. We have had a website and many other things, virtually from day one. The public are waiting to see what scheme will come out before they apply for anything. I was speaking to one of my colleagues in the revenues department the other day. We were talking about rates. He has been to quite a lot of public meetings and he said, "Folks aren't interested in the rates problem. They are asking what grant aid they can get to keep their business going." Rates are just a wee corner of the total picture.

We have noticed that any effects are patchy. There has been a lot of publicity about how the tourist trade has been badly hit, but a couple of weeks ago in Dumfries it was not possible to get a hotel room because they were all full of staff from the Ministry of Agriculture, Fisheries and Food, vets and the army—every cloud has a silver lining. It is difficult to sit down, identify the problem and come up with a blanket scheme to solve it. The problem is individual. The tragedies that have taken place are individual.

Mr McMahon: I will touch on what you said at the end about blanket solutions rather than individual ones. We are conducting an inquiry into local government finance, not into the effects of foot-and-mouth disease on Dumfries and Galloway. Although it is good to get individual examples of problems that exist in the structures of local government finance, I do not know how what was done to address the problems that foot-and-mouth disease caused in Dumfries and Galloway highlights any problems in the structures of local government finance. Could you show where problems have arisen, using the impact of the foot-and-mouth outbreak as an example but not telling us what the foot-and-mouth disease-related problems of Dumfries and Galloway are?

Alan Henry: We got on to foot-and-mouth disease because we were asked a question about hardship relief. I think that I am right in saying that, up to now, hardship relief has never been granted anywhere. It came to the fore because of the foot-and-mouth outbreak. Somebody thought of the hardship relief scheme and decided to apply it. That is how I got on to foot-and-mouth disease. It has highlighted the fact that a hardship relief scheme exists, that it has never been used and that nobody knows much about it.

Mr McMahon: That is what I was trying to inquire into. If the foot-and-mouth outbreak has highlighted an inherent problem in local government finance structures, that would be it.

Alan Henry: We can consider the hardship relief scheme in two ways. One is that, as I was complaining a minute ago, there is no definition of hardship. That has the advantage of making the scheme flexible. Perhaps the scheme can be applied on a horses-for-courses basis. The opposite side of that is how to know whether the scheme is being applied fairly. I suggest that, in Dumfries and Galloway, the Audit Commission will tell us that in due course—next year when it audits the books.

The Convener: I will ask one further question and then go back to my original question because Jacek was not here when I asked it. In your submission, you have stressed the importance of ensuring that the system of local government finance is appropriate for the structure and functions of local government. You particularly mentioned the dismantling of quangos and the links that should be made with other public bodies, such as health boards. Could you expand on those points and on what you meant about the importance of ensuring that the system of local government finance is appropriate for the structure and functions of local government?

Alan Henry: We are very much into joined-up government and community government. One of the problems that arises is blurring of the financial edges. In Dumfries and Galloway for example—I hate to come back to that area—we have taken a few joint initiatives with the local enterprise company and the health boards. Some of those initiatives have had problems. I do not know much about that, but some initiatives can have problems because of funding. It is important that funding is clear—that is what we are saying in the submission—if things are to be integrated or disintegrated. We are back to what I said earlier about benefits: those who benefit should pay and those who pay should benefit. How we get those relationships correct is what we are flagging up.

The Convener: Jacek, I have already asked Alan Henry this question. Your written submission expresses the concern that the Parliament is abolishing poindings and warrant sales without putting something just as effective in their place. Why are you so concerned about the abolition of poindings and warrant sales in principle, and do you have any suggestions for measures that would be equally effective but not as inhumane?

Jacek Nowak: As a tax collector, I think that warrant sales were always a last resort. Although there is no question that the majority of people will pay, we need a last resort because a certain element will choose not to pay. If there is no final sanction, that element will simply ignore us.

The Convener: Do you think that, in the final analysis, poindings and warrant sales are the only way to collect that debt?

Jacek Nowak: No, but they act as a last resort. The obvious way to deal with a defaulter is an attachment of earnings; however, a large proportion of people, including the self-employed and others, will not give the details of their bank accounts and therefore do not enable us to take any other action. Certainly, the IRRV's study for the Scottish Executive makes it clear that warrant sales are a last resort. Indeed, very few warrant sales actually took place, because the poinding of a debtor's goods encouraged him to make an arrangement with us. That is all we want; however, without that final sanction, there will be a problem.

The Convener: I thank the witnesses for attending the committee, particularly Alan Henry, who had to hold the fort for a while because Jacek Nowak was still on his way. In the course of reading your submission, I came across the hardship fund and thought, "Gosh, I wonder what that is". Experience tells me that, now that people know about it, you will be inundated with requests.

Comrades, our next witnesses are Professor Mike Danson and Geoff Whittam, who will present a case for the Scottish service tax. After sitting through the previous session, you will be aware of the procedure. You will make some introductory comments and then I will open the floor up to questions.

Professor Mike Danson (University of Paisley): I thank the committee for inviting us to submit the paper and to give a presentation on it. As members will be aware, the paper was based on some research that was carried out in late 1999 and early 2000 for the Scottish Socialist Party. I should point out that the paper is independent of the party, which exercised no editorial control. We were simply asked to consider alternatives to the council tax, particularly those based on the ability to pay, and to make a number of assumptions, such as having a lower limit of £10,000 for individuals.

The report is fairly detailed, so the committee will be thankful to hear that I am not going to go through the 50-odd pages. Briefly, we tried to address a number of issues. First, we tried to learn the lessons of the Layfield committee, which considered the issue of local government finance some decades ago and drew up some criteria on how to implement a system based on the ability to pay tax. Secondly, we examined lessons and experience not only from Europe but from north America. Thirdly, we tried to consider some of the wider implications of imposing a service tax that was based on the ability to pay—a local income tax. Fundamentally, our paper discusses whether such a tax would be feasible and meet the criteria that Layfield set out. Does the tax appear to be legal by being within the powers of the Scotland Act 1998? Would the tax be viable? Answering that question would involve examining the economics of the tax. As the previous witnesses said, political, social and technological issues are also relevant. We did not address those aspects, but considered the research as economists.

I will not rehearse the committee's reasons for conducting its inquiry or the problems of local government finance. The key criteria for us were the ability to pay and the introduction of a more progressive element to taxation in Scotland. The Institute for Fiscal Studies reported last year that the richest 1 per cent in Britain pay about 1.2 per cent of their income in council tax, whereas the poorest 20 to 30 per cent pay 1.9 per cent—almost double the figure for the richest 1 per cent. Council tax is highly regressive. The poorer the person, the higher the proportion of income that they pay in local taxation.

There is consensus that a more progressive tax is needed. The only element that is available in Scotland is the tartan tax—the ability to vary income tax by a flat rate 3p on the basic rate. That gives us fairly limited opportunities to improve the progressiveness of the tax system. We considered the report of the Layfield committee and concluded that a Scottish service tax—a local income tax that would cover all Scotland—would meet the criteria that Layfield set out and would overcome some of the problems that that committee identified as existing some time ago. Several changes have happened and mean that we could introduce a new form of tax that would be based on ability to pay and would be progressive and viable.

One reason why we favour a tax that is based on the ability to pay is that it would not require heavy means testing. For instance, 20 per cent of pensioners do not claim the benefits to which they are entitled. That applies to council tax benefit, like other benefits. The form of taxation that we propose would overcome that problem. It would put money into the hands of the poorest, which would have an expansionary effect on the Scottish economy. We draw on research from several bodies, including the Fraser of Allander Institute at the University of Strathclyde, to argue that the tax would also have such an effect on the UK economy.

I will not go through the figures, which we had to base on the most recent Inland Revenue figures that are available, from 1997-98. The Inland Revenue is several months behind in producing the latest annual figures, so we could not update our calculations. Therefore, we stress that the figures that we have produced are illustrative. They show that the system is viable and feasible. Most important, the system would raise about the same as council tax raised in 1997-98, without imposing excessive marginal tax rates. Running the information forward, we believe that the tax that we propose would gradually collect a higher amount. The tax would also be more progressive than the tartan tax—to use an abbreviation—and would raise about the same revenue as the tartan tax.

The research suggests that the case for the tax can be made in economic terms, as it would assist the growth and well-being of the Scottish economy. The tax would be progressive and redistributive, as it would take away money from those on higher incomes and redistribute it to those on lower incomes. As such, the tax would also be redistributive geographically. The tax meets the legal, fiscal flight and collection criticisms that the Layfield committee made. The form of collection, through the Inland Revenue system, is similar to the system in Denmark, where similar rates of tax apply at different levels.

We recognise in the paper that the tax as proposed has some disadvantages. Some we can deal with, while some will be left to politicians and others to discuss. We strongly advise members of the committee to consider other forms of land valuation and betterment taxes as well as a return to local authorities setting business rates. I shall leave it there and wait for questions.

The Convener: I wanted to ask you about key elements, but as you explained them in your presentation, I shall now allow questions from other members.

Mr McMahon: Much of your presentation was about addressing the weaknesses in the taxation system and moving from a regressive to a progressive tax system. Will the Executive be able to deal with your concerns about the regressive nature of personal taxation by making changes to national taxation, instead of by removing from councils the only tax that they levy on the local taxpayer?

15:00

Professor Danson: We have considered the Scottish service tax as an alternative to the council tax, but it could run in parallel with the council tax. Under the Scotland Act 1998, any form of taxation other than the 3p-in-the-pound tax would have to be raised for local authority finance.

Mr McMahon: Your report acknowledges that a disadvantage of the service tax is that it would replace the council tax with a tax that would be raised centrally. You said nothing in your presentation to indicate that that is not the case. Under your proposals, councils would no longer set a tax that would be paid directly by those who vote and live in a particular area. People would still vote in a certain area, but the tax would be raised centrally.

Professor Danson: Yes, I said that.

Mr McMahon: Surely that would destroy local accountability.

Professor Danson: No. As the previous witness said, people are elected on the terms of their manifestos and taxation packages.

Mr McMahon: Do you regard as contradictory trying to deal with local government finance by removing local authorities' ability to raise that finance and handing it straight to central Government? We are talking about accountability and the balance between centrally raised and locally raised taxation. The service tax would destroy that balance, but you do not seem to regard that as a problem for local accountability.

Professor Danson: I am sorry—I got lost in the middle of all that. What did you mean about accountability?

Mr McMahon: You expect those who currently pay a local tax to receive a local service to vote locally on local issues, but for the tax to pay for those local issues to be taken centrally through the service tax. Do you not think that that would cause a break with local accountability?

Professor Danson: There would be a change, but it would not destroy local accountability.

Geoff Whittam (University of Paisley): Given the increased centralisation of Westminster when dealing with local finance, that argument is not as strong as it once was.

We are concerned about the current situation in which the tax base is physically moving from areas of greater need—the urban areas of the major cities—to the lower tax areas. For example, there is relocation from the centre of Glasgow to Milngavie and Bearsden. The lower tax take for Glasgow City Council, which provides services for the residents of Bearsden and Milngavie, is counter-balanced by your argument about local accountability. The document argues for the return of the right of councils to levy non-domestic rates and the removal of the uniform business rate.

Mr McMahon: That is another aspect. How will your proposal for a local tax in the non-domestic sector work without an accompanying local tax in the domestic sector?

Geoff Whittam: Precisely because we are trying to address the question that you raise about the accountability of local authorities. Local authorities will still be able to vary non-domestic rates.

Mr McMahon: A non-domestic ratepayer may not reside in the area in which they vote. You would risk changing the tax system for someone who did not vote in an area and taking the accountability away from those who lived and voted there.

Geoff Whittam: The proposal should be considered in the context of the increased centralisation of the financing of local authorities that has taken place recently. It does not necessarily go against the grain. You should also bear in mind the argument I made a moment ago: the problem is that the tax base is physically moving out of the deprived urban areas. Taken as a package, there is still accountability in the process.

Mr McMahon: In the evidence that we have taken so far in our inquiry, most people have said what the IRRV said—that there were circumstances in the past in which the local tax take outweighed what was taken centrally. The major concern that is coming through to us in the inquiry is that 80 per cent of local government spending comes from central grants. People want that issue to be addressed. To increase local accountability you want 100 per cent of the money to come from central grants, although every piece of evidence that we have received so far has said that the only way in which to increase local accountability is to give back to local communities the power to determine taxation through the people for whom they vote in their locality and not to hand it over to central Government. It seems that, in pursuing a change in local government finance, you would destroy local government finance.

Professor Danson: As almost 80 per cent of the population of Glasgow exist on benefits, their ability to encourage the council to vary the tax rate is limited. The aspect of accountability is much reduced with capping, limitations on the right to borrow and so on. The accountability argument should not be stressed, but should be weighed against many other arguments, such as the regressive nature of the tax system and the lack of concern when the business rates were taken away from local control.

Mr McMahon: If it is difficult for taxpayers in Glasgow to influence the decisions on tax in Glasgow at present, how much more difficult would it be for them to influence tax if it were set completely by central Government at Holyrood?

Professor Danson: Along with everybody else, they would vote for a Government at Holyrood on the basis of party manifestos.

Mr Harding: From what you have said and from my reading of your submission you seem to be suggesting a form of national taxation. Have you checked with the Treasury whether such a tax would be competent?

Professor Danson: As we say in our paper, it is our understanding—from the Scottish Parliament information centre's reading of the Scotland Act 1998—that it would be competent as a local government finance tax.

Mr Harding: Have you checked with the Treasury?

Professor Danson: No. We are not experts in constitutional law.

Mr Harding: It is a grey area, and even SPICe gives an ambivalent answer.

Professor Danson: Correct.

Mr Harding: I would have thought that you would check to make sure, rather than presume something that probably is not legal.

Professor Danson: We accepted SPICe's recommendation.

Mr Harding: At present, almost £300 million is received from the Treasury in council tax benefit. I presume that that would be lost, as the majority of people who now receive the benefit would not pay the tax. What impact would that have on individual tax bills?

Professor Danson: Sorry, I missed the last part of your question

Mr Harding: What impact would the loss of £300 million have on individual tax bills?

Professor Danson: It would have no impact. That money would be lost to the Scottish Executive.

Mr Harding: If it were lost to the Scottish Executive, it would be made up through a Scottish service tax. We do not want a black hole of £300 million.

Professor Danson: The Scottish Executive did not spend all its money this year or last, so there would be no black hole. However, we recognise in our paper that that would be a matter for discussion between the Executive and the Treasury.

Mr Harding: If no benefits were due, why would the Treasury even consider paying that money?

Professor Danson: Because we are a United Kingdom.

Mr Harding: That money is for people in hardship, who receive council tax benefit.

Professor Danson: Correct.

Mr Harding: You are removing most of those people from the scenario, so why would the Treasury even consider giving the money back?

Professor Danson: We have not assumed that that either would or would not be the end point.

Mr Harding: To return to what Michael McMahon said, it appears from your submission that you are rather more concerned with addressing the weaknesses perceived in personal taxation in Scotland than with the local government finance system per se. Have you considered such issues as the gearing factor and the general principles on which local government finance should be underpinned?

Professor Danson: I can answer the first point. We do not separate the progressive nature of the tax system as a whole from the regressive nature of local government taxation; we think that they are connected. Therefore, the balance of our addressing that was to consider tax as a whole.

Could you repeat the second point, please?

Mr Harding: It was on the underpinning of local government finance.

Professor Danson: We worked to a certain brief, which was to consider a form of local taxation based on ability to pay. We recognise that there are certain disadvantages in that, and we have addressed those disadvantages in our paper. We do not give final answers to them. Many of the considerations are political and social.

Iain Smith: The biggest problem is that although you were asked to consider a form of local taxation based on ability to pay, you have come up with a national taxation system based on ability to pay. That is where the Local Government Committee has difficulty in examining your proposals as a local government tax issue. Did you examine any other ways in which local authorities could retain control of setting rates of taxation, but remove the progressive element in the council tax? For example, that could be done by changing the council tax or introducing some other form of taxation, such as a local income tax set by local authorities instead of by central Government.

Professor Danson: We considered those options in a number of ways. As Geoff Whittam pointed out, because of the fiscal flight from the cities, and because Scotland is a fairly small country with quite a dense population in its central belt, it is rather difficult to maintain the form of local income tax that was envisaged in former times, when people were not as mobile as they are now. The danger with a local income tax set in a certain city is that there might be an even greater drift, given that the areas of greatest need are those where the ability to pay is the most critical factor.

As for other forms of taxation, we suggest land value taxation in our written submission. We are not experts on that, but suggest that the committee should consider it. There have been experiments involving such taxation elsewhere. There is a long history of considering it in Scotland, which goes back several centuries, and there are a number of examples around: there are proposals to consider land valuation taxation systems in Liverpool, for example, and Copenhagen is funding its public transport infrastructure purely through a new land value tax. We were looking for something that could be introduced fairly simply and readily, that is a recognisable tax and that would raise money for local government.

Iain Smith: The tax will not raise money for local government if the money goes straight to central Government. It then becomes entirely a matter of how much central Government decides to give to local government, does it not?

Professor Danson: It raises money for local government; it would be identified as local government finance.

Iain Smith: Yes, but the level at which it is set is central Government, not local government. I am not suggesting that any political party would do this, but in an election year, the Government might decide to reduce the level of the Scottish service tax to make it appear that it was making a tax cut for the purposes of re-election. That would have nothing to do with local government, but the local authority would end up having to make cuts in services because central Government decided to cut the service tax. If a local authority did not know what its taxes would be, would it not be very difficult for it to plan its services?

Professor Danson: We addressed that issue.

Iain Smith: Would that not leave local authorities unable to determine how to meet local needs? If local authorities felt the need to increase services, they would have no tax other than domestic rates to raise or lower.

Professor Danson: We addressed that in our report, as did Layfield. We said that, as tax would be fixed for a period ahead, there would be certainty as to what income local government would receive. In any event, with the advent of capping, local authorities have not been able to vary local taxation.

15:15

Iain Smith: I accept that that has been the case in the past, but we are now looking to the future.

Mr Paterson: The present system takes care of equalisation on spending between councils. Why do you think your scheme would better target resources according to needs?

Professor Danson: The present system is one-sided. We are looking at raising tax and finance progressively, based on the individual. Equalisation is based on areas and uses a fairly crude population base, although a poverty base enters into some of the equalisation schemes.

Mr Paterson: If your system would be better than the present system, will you explain, for the record, how distribution would take place?

Professor Danson: On the finance-raising side, what is proposed is a progressive local income tax system. That would not stop the need for an equalisation system on the other side. The present equalisation system would continue, although the Parliament might want to suggest reforms to make the raising of finance more progressive. Our proposed system does not negate the need for an equalisation system.

Mr Paterson: Does that mean that we might use the same systems and criteria that we use at present?

Professor Danson: You may well do so.

Mr Paterson: Your proposal for a Scottish service tax is a fairly fundamental change. Do you think that such a fundamental change would work without taking a root-and-branch look at the whole tax system, including the much-talked-about Barnett squeeze?

Professor Danson: We allude to the Barnett squeeze in the introduction to our paper. Because of the Barnett formula, the Executive and the Parliament will have to look at alternative taxation systems in any event.

Geoff Whittam: As a general principle, we are in favour of a progressive taxation system and a switch to more direct rather than indirect taxation.

Mr Gibson: First, I would like to commend the witnesses on providing a radical document—probably the most radical document that we have had. Although there has been much criticism of it, and other members have echoed my own concerns, I want to give the witnesses my congratulations on at least having a good stab at the subject.

One of my concerns has just been mentioned: the Barnett squeeze. Given what Keith Harding said with regard to the loss of council tax benefits, is it not the case that your figures will be an underestimate of the levels of tax that would have to be raised as you would immediately have to find a £300 million shortfall? If so, the top level of council tax would have to be increased from 12.5 per cent to 15 or 16 per cent. Would that not lead to fiscal flight from Scotland, given the fact that people in Dumfries, faced with a 16 per cent tax, might decide that it would be better to live in Carlisle and that people in Edinburgh might decide to live in Berwick-upon-Tweed? Have you estimated the possible haemorrhaging of taxation if that scenario came to pass?

Professor Danson: Many debates about the tartan tax took place around the time of devolution. In various polls, the overwhelming majority of the

Scottish population agreed that fiscal flight would not be a major problem.

Mr Gibson: Hold on a second. There is a big difference between 3 per cent and 15 or 16 per cent. People might not want to move their business or their house because of a modest increase in taxation. Otherwise, all the people in Denmark might move out of Denmark, for example, and go elsewhere. However, if there were a substantial increase in taxation of that order, someone at a very high income level might decide that they could save £400,000 or £500,000 a year by shifting 60 miles down south. We would therefore lose that person's entire income, and possibly his or her business expertise and the jobs that they might create in the community.

Professor Danson: Fiscal flight has to be addressed. We did that implicitly in calculating the proportion of people who earn more than £100,000, which is the level at which the tax would bite if it would bite anywhere. What would be lost to Scotland in terms of the tax that those people would pay is estimated at £80 million. That is probably an underestimate of how much tax they would pay in effect, so we have implicitly taken into account any fiscal flight for very high earners. As I said, those figures are several years out of date. I believe that there was a question in Parliament in February that identified an awful lot more people on incomes above £100,000 than we have taken into account in our calculations.

What would also be lost would be any Scottish service tax that those people paid, compared with the council tax that they pay collectively, which does not amount to very much. We can assume that about £80 million would have been lost in those years, so that would be an important element. Whether their business expertise would be lost to Scotland or whether they would still run their businesses here is unknown.

You mentioned Denmark. Taxation in Denmark is much higher than it is over the border in Germany, but there is no fiscal flight. Car taxes in Denmark are an awful lot higher than they are in Germany, but we know that very few people cross the border to buy a car.

Mr Gibson: Of course, they would have to learn German as well if they were to flee Denmark to live in Germany. That is not an issue that would arise here.

Professor Danson: I was talking purely in terms of buying a car. We could also consider America, where, although there are local sales taxes, there is little movement between areas.

Mr Gibson: So you do not think that there would be much of an impact.

What about enhanced local services? One of the concerns of the committee is that, although local services have been under severe financial pressure for many years, the amount that appears to be raised by the service tax is in effect equivalent to what is already raised. We would raise the same amount, but we would lose £300 million in council tax benefit. We could lose the £80 million to which you referred, or we could lose more or less than that. It appears that less money would be available for services. Some services might be determined locally, but there would be no real ability to raise taxation locally. How would that benefit local government and provide more effective service delivery?

Professor Danson: As you said, we should set the debate in the context of the Barnett squeeze. Scotland has to make a fundamental choice about whether it will put more resources into the poorest areas, particularly the large cities and the very rural areas, and how it will do that. There are two elements: equalisation programmes and how one raises the tax in the first place. We think that there are problems with local sales taxes, very local income taxes, and so forth. What is proposed is a Scotland-level local income tax as an effective way of raising about the same amount of money and of introducing a more progressive element into the taxation system as a whole and into local government taxation in particular.

That does not get us away from the fact that local government has been heavily underinvested in for at least two, if not three, decades. There are major problems and major initiatives, such as the private finance initiative, are being taken to address those problems, but that does not remove the fiscal problem.

Mr Gibson: Page 20 of your document contains an interesting comment. It says:

> "devolution can lead to 'backlash' effects, especially from those English regions where powers have not been devolved, and this may undermine any universally favourable developments."

Can you expand on that?

Professor Danson: We are hearing comments from down south that, because of the Barnett formula, Scotland is better off than England. We are perceived to have better health and education systems. A higher proportion of people use those services in Scotland, and will do so in the future, than south of the border.

The paragraph from which you quote was concerned with addressing any problems that might arise in relation to the Treasury. Research from a number of countries suggests that putting a pound into a poor person's pocket by taxing a rich person will expand the economy. Analysis in Germany suggests that taxing a rich Land and giving that revenue to a poor Land will expand the

German economy, including the economy of the rich area, in the long term. That is why the introduction of a Scottish service tax and the retention of the tax benefits within the block grant should be supported by the Treasury. That addresses the backlash.

Mr Gibson: Maybe the Treasury should support that, but would it?

Professor Danson: That is up to politicians.

Mr Gibson: What would be the incentive for the UK Government to support the proposal? I appreciate what you say about the positive effect that it would have on the economy, but the UK Government might take the view that Scotland has taken a decision that it does not support and on our heads be it. Is it realistic to think that the Treasury would consider the proposal?

Professor Danson: The evidence from various countries suggests that that form of redistribution of wealth, if not undermined, will lead to an expansion in the national economies as well as the economies of the poorer regions.

Mr Gibson: If the Government believed that, would it not already have implemented the proposal?

Professor Danson: To an extent, the Government has not yet had to address the issues. Apart from on the Barnett formula, there is little discussion on fiscal federalism in the UK, which is why we have to go to other countries to find useful research.

Iain Smith: Table 13.2 in your report illustrates the amount of tax that would be payable by individuals in Scotland. It indicates that an individual who earns less than £10,000 would pay no Scottish service tax and that individuals would pay progressively higher rates as they earned more money. It also shows that, although a husband and wife who each earn £9,999 would not have to pay the Scottish service tax, someone who earned £16,000 and whose partner earned nothing would have to pay it. Would that not be unequal and unfair?

Professor Danson: Yes, like any other income tax system in the world.

The Convener: Before we close, I want to check something. Did you say that 80 per cent of people in Glasgow are on benefits?

Professor Danson: When we were talking about housing stock transfer, we said that 80 per cent of those in—

The Convener: Eighty per cent of the tenants, then.

Professor Danson: I had not finished my sentence.

The Convener: Sorry.

Professor Danson: Eighty per cent of people in social housing in Glasgow are on benefits. A similar proportion of those in rented accommodation are on benefits, as are many owner-occupiers.

The Convener: Thank you for coming along. If we need to see you again, we will contact you.

Subordinate Legislation

The Convener: We have a negative instrument in front of us today: the Town and Country Planning (Limit of Annual Value) (Scotland) Order 2001 (SSI 2001/164). An extract of the Subordinate Legislation Committee's consideration of the instrument was included in your papers. That committee believed that there was no need to draw the attention of Parliament to the instrument. No motions to annul have been lodged and, therefore, no action can be taken on the instrument. Are we all agreed that the Local Government Committee has no recommendation to make on the Town and Country Planning (Limit of Annual Value) (Scotland) Order 2001?

Members *indicated agreement.*

The Convener: We move into private session.

15:30

Meeting continued in private until 16:28.

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