

LOCAL GOVERNMENT COMMITTEE

Tuesday 30 October 2001
(*Afternoon*)

Session 1

£5.00

© Parliamentary copyright. Scottish Parliamentary Corporate Body 2001.

Applications for reproduction should be made in writing to the Copyright Unit,
Her Majesty's Stationery Office, St Clements House, 2-16 Colegate, Norwich NR3 1BQ
Fax 01603 723000, which is administering the copyright on behalf of the Scottish Parliamentary Corporate
Body.

Produced and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by The
Stationery Office Ltd.

Her Majesty's Stationery Office is independent of and separate from the company now
trading as The Stationery Office Ltd, which is responsible for printing and publishing
Scottish Parliamentary Corporate Body publications.

CONTENTS

Tuesday 30 October 2001

	Col.
ITEMS IN PRIVATE.....	2293
LOCAL GOVERNMENT FINANCE INQUIRY	2294

LOCAL GOVERNMENT COMMITTEE 27th Meeting 2001, Session 1

CONVENER

*Trish Godman (West Renfrewshire) (Lab)

DEPUTY CONVENER

*Dr Sylvia Jackson (Stirling) (Lab)

COMMITTEE MEMBERS

*Mr Keith Harding (Mid Scotland and Fife) (Con)

*Mr Michael McMahon (Hamilton North and Bellshill) (Lab)

*Tricia Marwick (Mid Scotland and Fife) (SNP)

*Iain Smith (North-East Fife) (LD)

*Ms Sandra White (Glasgow) (SNP)

*attended

WITNESSES

Mike Grealy (Local Government Association)

Neil Kinghan (Local Government Association)

Colin Mair (University of Strathclyde)

CLERK TO THE COMMITTEE

Eugene Windsor

SENIOR ASSISTANT CLERK

Irene Fleming

ASSISTANT CLERK

Neil Stewart

LOCATION

Committee Room 1

Scottish Parliament

Local Government Committee

Tuesday 30 October 2001

(Afternoon)

[THE CONVENER *opened the meeting at 13:57*]

Items in Private

The Convener (Trish Godman): Good afternoon, comrades. I ask the committee to agree to take items 3, 4, 5 and 6 in private. Item 3 is a progress report with interim findings that are confidential at present. Items 4, 5 and 6 are draft reports. Do members agree to take those items in private?

Members *indicated agreement.*

Local Government Finance Inquiry

The Convener: We move on to the next stage of our local government finance inquiry. We welcome our adviser, Rita Hale, and witnesses who are going to give us wide-ranging evidence. We have been taking evidence for—how long?

Eugene Windsor (Clerk): A year.

The Convener: Local government finance is a complex subject, as members will be aware.

Today, we welcome from the Local Government Association Neil Kinghan, the director of local government finance, and Mike Grealy, the deputy director of local government finance. The witnesses will give a presentation, after which I shall allow members to ask questions. I thank the witnesses for their paper—you are welcome to the committee. It is now over to you.

Neil Kinghan (Local Government Association): Thank you for inviting us. I shall be brief, to allow more time for questions.

We are here on behalf of the Local Government Association, which represents all local authorities in England and Wales, although not those in Scotland. The local authority associations in England—both the LGA and its predecessor organisations—have long argued for the reform of local government finance.

14:00

The present system has a number of strengths, which must be recognised. It is a means of distributing a large amount of money, which it does with some controversy but, on the whole, in a reasonably acceptable way. Nevertheless, the system gives too much power and control to central Government. That is wrong, as it undermines local democracy and the effectiveness of local government. Decisions about local government finance and other issues of local concern are better made locally, as local people understand local issues, although those decisions should be made within a national framework.

The system in England has been subject to some recent improvements, as has the system in Scotland. I shall try to avoid making party political points, but we think that the abolition of universal capping was a positive step forward, as it gave people in local government more control over decision making, despite the fact that the Government has retained reserve capping powers. We also attach much importance to the prospect of the reform of the local government capital finance system. The Government's proposals

were in line with the LGA's recommendations and we are keen that they should proceed as quickly as possible.

On the other hand, we are not happy about the extent to which the Government is using specific grants as a means of funding local government activities. That practice has increased substantially in England over the past few years, as has Government intervention in local government financial decisions. More generally, we are concerned that no significant progress has been made in changing the balance of the funding of local government. As the committee may know, local government raises only about 25 per cent of its income; the rest is controlled by central Government. We think that that balance is wrong and that that is the fundamental issue that any reform of the system should address.

I shall stop there and take members' questions.

The Convener: You have examined local government finance systems in other democracies. Can we learn anything from the strengths and weaknesses of those systems? Are there any good points that occur to you immediately, or are there clear weaknesses in those systems that we should avoid?

Neil Kinghan: International comparisons are always difficult, as the systems depend on countries' cultural and local historical political traditions. It is too simplistic to say that, because a system works in one country, we should simply transport it to this country. It would be equally wrong—possibly arrogant—to pretend that there are not things that England, Scotland and Wales could learn from other countries.

There are several attractive alternatives in operation in other countries. Probably inevitably, we like the Swedish system especially. In Sweden, local government collects income tax and then passes some of it on to central Government. Admittedly, that takes place under central Government control, but that system seems to have some advantages from which this country might benefit.

I am not necessarily arguing that local income tax is the right answer in this country, but other countries have systems that are worth examining. France has many different local taxes, which give local government an array of revenue-raising powers. In Germany, local authorities have a fixed share of national income tax; it is fixed by law at 15 per cent. That has some disadvantages, as it limits the extent to which their income may change. On the other hand, it means that they benefit from the buoyancy of income tax. One of the characteristics of council tax is that it is not a buoyant tax; it does not go up as national income goes up. The other advantage of the German

system is that local authorities are relatively protected from short-term political decision making by central Government.

In a number of countries, local government raises a lot more of its income locally than is the case in this country—60 per cent in Sweden and 57 per cent in Spain, for example. However, we are aware that, when such comparisons are made, people draw attention to countries where relatively little local income is determined locally. The Netherlands is an example that is often quoted. The usual figure quoted for income that is raised locally there is just 9 per cent, but local government in the Netherlands is usually thought to be reasonably independent. That is connected to cultural history. On the whole, there are relatively good relationships between local government and central Government in the Netherlands, and local government funding is not the subject of argument in the same way as it is here.

Although a number of factors have to be considered, we would prefer to be associated with those countries where a larger proportion of income is raised locally.

Mr Keith Harding (Mid Scotland and Fife (Con): You see an increased proportion of funding raised locally as an essential feature of an effective local government system. Why is the balance between the central and local funding of local government so important? What is likely to happen if central Government continues to provide the majority of the funding for local government?

Neil Kinghan: There is a lot of discussion about that. There are those who say that it does not matter much if central Government provides a large proportion of local government funding, as happens in the Dutch system, as long as the general relationship is okay. One could get drawn into a theological argument about that.

Our reasons for thinking that the balance of funding matters are threefold. First, we are concerned that as central Government has controlled more of local authority funding it has begun to treat local authority expenditure as if it were its own money. If the Government controls 75 per cent of local authority expenditure, it is perhaps not surprising that it feels that it can tell local authorities what to do rather more freely than if it were controlling only 50 per cent. It is difficult to argue whether there is a direct causal relationship in that, but there is arguably a significant psychological effect.

Secondly, we are concerned about the psychology of local authorities. Local authorities see themselves as more and more dependent on central Government, because so much of their income is controlled centrally. That tends to mean

that when there is a local crisis, such as the need to spend money on emergency planning, which is topical at the moment, local authorities are inclined to say that they need that money from central Government. That is what tends to happen in England; I do not know what the situation is in Scotland. We would like local authorities to begin by saying that such matters should be decided by local government itself and managed from its own resources. There is an increased dependency on central Government.

The third element is the public's attitude. If much of local expenditure is controlled centrally, local people are bound to be confused; the issue of whom they hold accountable for local decision making is bound to be confused. The danger is that, if that situation continues for longer or becomes worse, all those psychological effects will become stronger.

Mr Harding: An alternative view exists that it is appropriate that only 20 per cent of income is raised locally, because 80 per cent of expenditure—on education, social services, fire services and the police—is determined by the Government. The 20 per cent that local government raises is the amount that it determines how to spend. How do you answer that?

Neil Kinghan: That makes my point about the Government's attitude that the money belongs to it and that if local government spends that money it should do what the Government says. That is the implicit argument that runs in central Government.

I do not accept that there is a logical reason for determining all education policy or all social care policy nationally. Of course those services are important and the Government should set national standards, intervene in some ways if those standards are not followed and set a national framework, but the LGA's view—I am sure that Scottish local authorities share it—is that many decisions, even in the policy areas that I mentioned, are more appropriately taken locally.

What is necessary to deal with social services problems in a rural area in the north of Scotland is different from what is necessary in Glasgow or Edinburgh. In England, the social and health problems of the inner cities of the north are different from those of the south. Government policy can adapt, but there is a risk that, if all policy is settled centrally, a one-size-fits-all approach will be taken, whereas local variation in a national framework is more desirable.

Mr Harding: What do you feel about devolving school budgets to school boards from local government and removing health-related social services to health boards? That would provide a 50:50 split of income.

Neil Kinghan: If education were removed from

local government, the balance would indeed be much closer to 50:50. As I said, however, local authorities can contribute to education and social services policies. Local politicians can and should make a valuable contribution. That is one reason why I would not like to remove such matters from their control.

If the Government in England or Scotland said that it would sort out the balance by removing education from local government control, people would say next that the balance could be made even better by removing social services and better still by removing transport, fire and libraries. In the end, local government would fund 100 per cent of its services, but all that it would do is collect the rubbish. That is not to say that collecting the rubbish is unimportant, but other things should be done locally, too. That approach is insidious, but it tempts some people.

Mike Grealy (Local Government Association): Good afternoon. In England, school budgets are devolved to schools and are managed by them locally. A partnership arrangement with the local education authority exists. The lion's share of the cash for education is devolved to the lowest level already.

Mr Harding: School budgets are devolved in Scotland, too, but they are not devolved direct from the centre. We still have education departments.

The Convener: Britain is signed up to the European Charter of Local Self-Government. Article 9 of that charter deals with financial resources. What power exists to deal with a recalcitrant Government that does not adhere to article 9? Can something workable be done about that? Can it be pulled into line? Your submission says that criticisms about other Governments that are not pulling themselves into line

"are as applicable to the United Kingdom as they are to other member states".

14:15

Neil Kinghan: I would like to be able to say that we could use that article. However, I suspect that if the Government thought that it could be taken to court over the issue, it would not have signed up to the charter in the first place. As I said, there are variations between European countries. In some countries, more than 50 per cent of the income is raised locally. However, in the Netherlands—which I am sure would regard itself as a terribly good European country—only 9 per cent of the income is raised locally. Although the European charter provides us with an argument that we can and should—and indeed do—use, I doubt that we would succeed in enforcing it through the courts.

Ms Sandra White (Glasgow) (SNP): Thank you

for your interesting submission. I want to ask about business rates, which feature strongly in your submission. Will you elaborate on your point that the best way—although not the only way—of ensuring parity between local government and central Government is to allow local government to retain control over business rates?

Mike Grealy: Our primary objective is to restore the balance of income. At the moment, roughly 75 per cent of income is provided by central Government and 25 per cent is gathered locally through council tax. We would like to return to a 50:50 situation, at least at a national level. Returning the business rate to local control would restore that balance at national level at a stroke. Furthermore, under the current system, many local authorities face large percentage increases in council tax for relatively small increases in expenditure, which confuses all concerned. Restoring the business rate to local control would help with the gearing effect in that respect.

The second key point is that the business rate is a buoyant source of income. At the moment, the income to local government is not buoyant, and we need to increase that buoyancy. Moreover, returning control of business rates to local authorities would very much restore the relationship between business communities and local councils. Although there has been much good work between local authorities and local businesses and industries, giving them all a direct stake or involvement in the level of expenditure and business rates would help them to reconnect. However, as we are not suggesting that businesses should be given votes, there are some problems of improved accountability with our proposals.

As far as this debate is concerned, the Government in England has run into problems persuading the business community that it has nothing to fear from local authorities. However, I should point out that there is no evidence that the Government has been concerned about the level of local government expenditure. Although reserve capping powers have been on the statute book for two or three years, the Government has not had to use them, which perhaps shows that local authorities will behave responsibly if they are given greater freedom.

It is all very well having debates at a national level, but it is equally important that there is a debate at local level and that local authorities make greater efforts to engage in dialogue with their local businesses about both the level of the business rate and the interaction between the two sectors. The issue is not an easy one and there are well-rehearsed technical problems with restoring the business rate to local authority control.

Ms White: You have answered some of my questions about the fact that people are frightened by the prospect of local authorities having control over business rates, which is probably why the Government is a little wary of suggesting it. Has your association or any other local government association met businesses to discuss this issue? Have you spoken to local businesses, produced papers for them and tried to convince them that the proposal would be a good thing?

Mike Grealy: We have put an enormous amount of effort into doing that over the past three or four years—ever since the Labour party made a commitment in its 1997 general election manifesto to consider returning control of the business rate to local authorities. However, I do not want to stray too much into politics. Since then we have had a lengthy dialogue with business communities, national chambers of commerce and the Confederation of British Industry. That dialogue has been conducted both nationally and regionally, with the aim of fostering support for the proposal.

Neil Kinghan: It is not altogether surprising that the representatives of business interests are able to rally resistance to the change. If a Government, of any party, talks about making a change of this sort but appears to be nervous about doing so, any representative organisation is likely to unite its members in opposition to that change. Unless a Government, of whatever party, makes returning control of the business rate to local authorities a positive proposition, I would not be at all surprised if business interests remained opposed to it. I am sure that they will tell the committee that themselves.

The Convener: If a Government decided to return control of the business rate to local authorities, how long would it take to implement that change?

Mike Grealy: Clearly, it would require primary legislation and it would be several years before a new system could be introduced. Such a system would take some designing. The old domestic rating system and business rating system worked in parallel and were based on almost the same methodology. We would have to take some time and care to build a link that ensured that there was a relationship between increases in council tax and increases in business rates. Technically, that is not easy.

Neil Kinghan: We accept that that would take some time. However, in our view that is a good reason for any Government to decide to do it as quickly as possible. The Government could then get on with it.

The Convener: That is not an argument for changing the system, but it is an issue that no one

mentions. People seem to think that any change could be turned round very quickly.

Dr Sylvia Jackson (Stirling) (Lab): I have two questions based on what you have said so far. The first relates to business rates in local authorities that are not home to a large number of businesses. What are the issues in such authorities? Secondly, I was intrigued by what you said about the Netherlands and the fact that so little revenue is collected locally there—I think that you gave the figure of 9 per cent. I am sure that Keith Harding would like to hear which services local government has control of in the Netherlands. You said that the Dutch system seems to work because there is a good relationship between central Government and local government. In what way is it good? What do they have that we do not have?

Neil Kinghan: That will teach me not to introduce international comparisons into the discussion.

We are clear that any system that restored business rates to local control would have to use business rate income as part of the equalisation process. I will take an example from England, as we know more about the system there. In Merseyside, for example, some areas have many businesses, but these days most have relatively low business income. Those areas would still have to receive a considerable amount of central Government grant. However, every time an authority wanted to increase its expenditure, it would not have to rely solely on the council tax, but could also raise income from the business rate. Mike Grealy may want to add something on that point.

We may have to offer the committee a note on the situation in the Netherlands, if members would like to know exactly what local authorities there are responsible for—I am not sure that I can remember that. However, I want to be clear about what I said. I said that in the Netherlands local authorities raise only 9 per cent of their total expenditure locally. That does not imply that they are not responsible for a substantial range of services; it means only that their control over the amount of money that they raise is limited.

I know that local authorities in the Netherlands also have access to a municipal fund, which is linked by law to the level of Government spending. The fund provides them with about 36 per cent of their income. That means that they have another secure source of income. Of course, the Government could change the legislation but, while legislation of that kind remains, they have a bigger share of income that is not decided by the Government each year. The reason why local government there gets on better with central Government than is the case here is a difficult

issue. I dare say, however, that it is to do with cultural issues. We will prepare a note on that subject for the committee.

Dr Jackson: That would be useful.

Ms White: I have a brief question about the equalisation process. If Glasgow, for example, were able to keep 100 per cent of the business rates that were raised in the city, would that mean that any corresponding grant from central Government would be reduced?

Mike Grealy: Basically, yes. Prior to 1990, there would have been an offsetting adjustment and the rates-rich authorities would not have been allowed to retain the full benefit of their higher levels of rateable value. Some of the rates income would be creamed off for the benefit of other authorities. However, the system would have to be integrated into the overall system of finance, including the grants system.

Mr Michael McMahon (Hamilton North and Bellshill) (Lab): A lot of the questions in this inquiry have been about how money is distributed locally. However, your submission talks about the principles of the local government finance system and considers the distribution system in relation to local accountability and decision making. What problems in the present system make it difficult to achieve a system of local government that attracts and retains talented politicians and staff while retaining the desired level of accountability?

Neil Kinghan: The main problem is that too much control is with central Government. One can argue about whether it is essential that a certain level of responsibility for funding should be appropriate for local democracy, but there is a general view in England—I think it exists in Scotland as well—that, over the past 20 years, local government has been regarded as a less significant player in important local decisions than it used to be. The balance of funding is a key element in that and it is inevitable that, if the situation continues, fewer people will think of local government as a place in which they want to have their careers either as elected members or officers. If someone wants to make a difference to the way in which their city, area or country is governed, they will want to be in a position of influence. If local government has relatively little control over the decisions that are made in the area over which it is responsible, capable people will be less interested in it.

Mr McMahon: Your submission highlights nine or 10 points that you consider to be key principles. Would you expand on your submission and detail what you consider to be the key features of a local government finance system?

Neil Kinghan: The most important issue is that there should be a clear line of local accountability

between people who are elected to make decisions locally and the people who vote for them. To achieve that, there must be good information on the performance of a local council. We recognise that there have been significant improvements in information about performance in recent years through best value and so on. That is one key component.

The direct interference on decision making must be removed: in financial terms, I mean capping and the council tax benefit subsidy limitation scheme, which I will explain in more detail if that is the committee's wish, although I do not think that it is. A substantial amount of income should be raised locally.

Those are the key elements for local financial accountability. There should be a tax base for domestic taxation—council taxes—that is kept up to date and that is reasonably fair. The council tax is a good tax, but it needs to be updated; indeed, the Government has just announced that there will be a revaluation and we welcome that.

We have made it clear that there is a continuing role for Government grant. Government has national standards that it wants to implement throughout the country, but the resources and needs of areas are different. There should be an objective and transparent distribution system that is more transparent than the current system. The option of alternative taxes should be kept open and there should be a new capital finance regime, as I mentioned.

Finally, local public service agreements, which have developed in England in the past 18 months, are potentially an important element in central and local government agreeing on priorities and how to achieve those priorities. In Scotland, there are local outcome agreements.

I hope that that answer was full.

14:30

The Convener: Before Iain Smith asks a question, I want to record in the *Official Report* that the committee considered council tax banding long before Westminster thought of doing so.

Iain Smith (North-East Fife) (LD): You covered a wide range of issues, Mr Kinghan. I want to pick up on how one area ties in to concerns about local government finance.

Will you expand on how public service agreements work? Will they act as a counter to the pressure from central Government for more ring fencing of funds for the major services and for the increased use of specific grants and special funds, for example? Will PSAs start to redress the balance?

Neil Kinghan: We hope so. PSAs are close to the Local Government Association's heart. We are greatly involved in developing them for local authorities in England. Potentially, they are a significant means of changing the relationship between local and central Government.

I have spent some time talking about what had happened in the past 10 years and about local government being seen as a less significant player. There is a lack of trust between central and local government and a lack of trust on the part of central Government in particular. In part, local PSAs are about local authorities demonstrating that, if they can discuss priorities in a grown-up way with central Government, they can and will deliver on targets that are at least as good as any national targets.

The local PSA system—which is being rolled out to all local authorities in England, except for shire district councils—is a means of demonstrating that if there is a more sensible dialogue than that to which we have become accustomed in the past few years, better performance results, better service delivery and better outcomes for local people can be achieved than if central Government simply tells local authorities what to do all the time. We therefore put a lot of trust in local PSAs as a development for the future. In the short term, they achieve something by generating more dialogue. We hope that in that there is the basis of a better relationship in the future.

Iain Smith: If PSAs do not work, or if they take some time to start to work, will there be increasing pressure from central Government to ring-fence funding for major services? If so, what would the LGA's response be? How would you argue against increasing ring fencing?

Neil Kinghan: As you imply, there is such a danger, but the danger is not that local PSAs are not working. So far, there are agreements between only 20 local authorities and the Government. It is far too early to tell those agreements will work. PSAs can and should demonstrate to the Government that there is a means by which the Government and local authorities can set themselves targets that are more desirable and better than national targets without ring fencing. Mike Grealy will say why we think that ring fencing is not a good idea.

Mike Grealy: We have no difficulty answering that question, because we have consistently been opposed to ring fencing or direct funding of particular services. We have already touched on several arguments, but it is perhaps worth rehearsing them. First, ring fencing reduces local authorities to local administrators of nationally delivered services. Secondly, it weakens local accountability and democracy and—just as important—erodes local financial responsibility

and freedom. Thirdly, it leads to weaker co-ordination of services. Finally, if one service is ring-fenced and funded directly, that leads to pressure for other services to be ring-fenced and funded directly. Those pressures come not only from ministers, but from service interests.

We have consistently made those points to the Government and were pleased when many of them were included in the Government's green paper on local government finance in September 2000. Obviously, we take every opportunity to remind the Government about the clear arguments against ring fencing.

Tricia Marwick (Mid Scotland and Fife) (SNP): The Local Government Association has made it clear that it believes that

"Local authorities should receive most of their grant funding in the form of **general non-earmarked grant**".

What problems do the high levels of specific grant create for local government? Is there an optimum amount or percentage of local government finance that should come through specific grants?

Mike Grealy: We do not have a fixed figure in mind about what proportion of overall Government support should take the form of specific grants. We are concerned that the proportion that has been earmarked for specific grants has in recent years gone up from about 4.5 per cent to 9.5 per cent of overall Government support. That has happened in a very short space of time. The trend has been towards a greater proportion of funding coming through specific grants.

The arguments against specific grants have been well rehearsed; they lead to increased centralisation and inevitably stifle local initiative and innovation. A good example is probably the standards fund of the Department for Education and Skills, although it is worthy in many ways. There are so many streams of grant trying to address everything and all of them are dictated by central Government, rather than being determined by local authorities. Clearly, specific grants override local priorities. With each specific grant regime comes a whole new bureaucracy: forms must be completed, auditors must audit and a whole new culture is introduced. The essence of specific grants—earmarking of pots of money for specific purposes—cuts across the notion of joined-up service delivery.

However, the Local Government Association accepts that specific grants are probably the most appropriate funding mechanism in certain circumstances, such as where the local authority has little discretion about how to deliver a service to a national standard. Such grants are also useful when new functions are introduced, and for pump-priming purposes. Specific grants are probably the preferred route where particular spending

pressures impact on a small number of authorities in a particular part of the country. We also accept that there are circumstances in which it is useful to experiment with a specific grant-type approach before rolling out a broader financial initiative.

Tricia Marwick: You said that since 1998 the LGA has argued that the need for reform in the local government finance system is urgent. You also said that the Government has taken on board many of your suggestions. Do you feel that even with the suggestions that the Government has taken on board, we are tinkering at the edges of reform of local government finance? If you had to design a system for local government, would not that be the system that we have? If you were starting from scratch in designing a system for local government, what kind of system would be preferable? Would it include a combination of any elements that we have at the moment, such as local income tax?

Neil Kinghan: That is an open question. I do not want to suggest that we have been arguing for reform of the local government finance system since only 1998. Local authority associations have been arguing for that since they were formed. I dare say that we will carry on arguing that for as long as such associations exist.

I come back to the point about international comparisons. I am conscious of the fact that relationships between central and local government might be better in other countries than they are in England and Scotland. That does not mean that there are perfect relationships anywhere; there will always be arguments because there will always be tensions between central and local government on issues of finance.

I do not think that there is a panacea. We have made it clear why we think that the return of business rates to local control would benefit significantly local government and the whole country—even if business representatives do not recognise that in the short term. There are alternative ways of dealing with the local government finance system. There are lots of ideas, but it is unfortunate that most of those have at least as many opponents as they have supporters.

Local income tax has always been popular with the Liberal Democrats, but the other two parties have always been—[*Interruption.*]

Tricia Marwick: Careful.

Neil Kinghan: I beg your pardon. I was referring to the other two main parties in England. I will get myself out of the trap that I am falling into.

Local income tax has many supporters and it is now much easier to achieve administratively than it would have been 10 years ago. However, it

would be politically quite controversial. It is doubtful whether national Government would want to give up a share of its control of income tax to local government. We think that more could be done with the council tax than is done at the moment. Council tax raises, on average, about 25 per cent of local government's income. That proportion could increase, although that would be—as with all such measures—quite controversial.

Those are the only really big ideas that people are interested in pursuing. There are other ideas for more marginal changes. People have been talking recently about a tourism tax. We tend to think that, given the state of the tourism industry, this is not the best time to launch a tourism tax. We have borne that in mind and have not proposed such a tax.

People talk about local sales taxes, which are used in a number of other countries. The argument against such taxes in the United Kingdom has always been that local markets are not sufficiently distinguishable—there is too much cross-border shopping. It might be that a local sales tax could be applied to certain things for which that would be less of a problem.

There is scope for raising more income from fees and charges than is raised at the moment. Particular types of charges could be used, such as congestion charges and car park charges, which could raise money that would be used specifically for transport spending. In other matters, local authorities could have more freedom than they do at the moment.

The last idea in this area is the idea from Germany that I mentioned earlier—that local government should have a share of income tax, which would be assigned by law.

As I said, there are many ideas, but it is easy to find something wrong with them. What is needed is for somebody to be bold and go ahead and say, "We don't want this system to carry on. It is creating too much dependency." Even if none of the ideas is perfect, let us pick one, or possibly two, and push it forward.

The Convener: Before I bring in Sylvia Jackson, the mental health specific grant has come to my mind, because I used it in my work and it was useful. You say in your paper that you are not happy because the system leans too much towards specific grant aid. Do you have an exit strategy that would help central Government to reduce the scale of specific grants and help local authorities to cope with the withdrawal of specific grants, if that is your intention?

14:45

Mike Grealy: Yes. As I said, we are concerned by the extent to which the number of specific grants has increased in a relatively short period. We see two ways forward, both of which involve reviewing the scale of specific grants. The first obvious opportunity is in the context of the current spending review. We are encouraging the Government to examine carefully the rationale for the existing specific grants; in many cases those grants were introduced for entirely worthy reasons, but those reasons have been lost in the mists of time.

We need to have a regular review. That review could be done through the spending review process—one element of the most recent review was the degree of hypothecation—or by ensuring that every time a specific grant is introduced, we are honest about the exit strategy. For example, we should ask whether a grant is a pump-priming grant for a three-year period, or a one-off grant for a year. In many circumstances, we simply do not know what the intention is. We get a grant that comes in for one year, then we spend the next 12 months working out whether it will continue for years two and three. We must be honest about that in future.

Dr Jackson: I wish to ask about the new capital finance regime, of which you are in favour. First, when do you see that being introduced in England? Secondly, I gather that the Treasury is likely to impose limits on the amount of local authority borrowing that will take place immediately after the introduction of the regime. What are your views on that? Lastly, if the new capital finance regime based on prudential rules is implemented fully, what do you think the implications will be for private finance initiatives?

Neil Kinglehan: I will start, and Mike Grealy will carry on. As you say, we are keen on the proposed new capital finance regime. We proposed it three years ago without, I must say, any real confidence that the Government would go for it, because we were asking it to remove statutory controls and to rely primarily on prudential controls and self-regulation. We were absolutely delighted when the Government said that it was going to go down that route.

Perhaps our delight got its just reward when it became clear that the Government was not going to introduce the legislation quite as quickly as we thought it should. We were disappointed that in the Queen's speech in Westminster earlier this year no local government capital finance bill was mentioned. We have pressed the Government vigorously, as have others, to get on with it. In fact, we still hope that the Government might find a space for such a bill in the present parliamentary session, but if it does not, we are pressing it to

demonstrate its intention to proceed by publishing a draft bill during the session. If there is no bill this session, the earliest it will be introduced is 2002-03, which means that the earliest that it will be implemented is 2004. If we are honest, even if the bill were introduced now, we anticipate that 2004 would be the likely implementation date.

Other work must proceed. The new system depends on a prudential code, which the Chartered Institute of Public Finance and Accountancy is drawing up with our help and others' help. That is taking some time, although CIPFA is getting on with it well. The earliest likely date is 2004—in our view, that should also be the latest date. I am not quite sure about the position in Scotland. As the Scottish Parliament is not subject to the problems of the legislative timetable of the Westminster Parliament, perhaps you will be able to act more quickly and show the way. I am sure that that would be helpful.

A few months ago, there was a rumour that the Treasury intended to exercise fairly strict controls when the new system was introduced. However, it seems to have backed off from that approach. As members might expect, we would rather have as little as possible in the way of transitional controls. Perhaps the Government will feel that it must have some controls—if so, one hopes that such controls will be as short lived as possible and that they will be no more restrictive than is necessary.

Mike Grealy: I will expand slightly on that point.

We are clearly against any notion that detailed authority-level spending or borrowing controls should be a feature of the new system, because that would cut across the concept of a prudential system that is underpinned by a professional code. We want to get away from the notion of annual allocations of supported credit approvals, authority by authority. As Neil Kinghan indicated, we have made some progress behind the scenes on that issue.

I will turn briefly to the interaction between the new prudential system and the private finance initiative. In talking members through this, perhaps I should start at the end. There is no easy answer, because it is difficult to foresee what the precise interaction will be. We envisage that, in the new system, the Government will continue to want to provide direct financial support for some capital schemes—those that are deemed to be of national, or more than local, importance—in the form of either capital grants or revenue support. I am not quite sure what criteria will be used. The continuation of PFI must be seen in that context. It is clear that that issue must be picked up in the development of the new prudential system and through the spending review process. The current spending plans take us through to 2003-04. Those figures include a substantial increase in provision

for PFI. A question mark hangs over what happens to PFI credits from 2004 onwards. Will we continue with PFI credits or will PFI credits get rolled up into the new form of cash support for capital schemes? That is an important question that we should not lose sight of, and we should not allow the Government to lose sight of it either.

Mr McMahon: The difficulties that are frequently encountered with specific grants have been mentioned. Perhaps we could move on to talk about some of the difficulties with general grants, including your difficulty with standard spending assessments, which we call grant-aided expenditure. Do you have specific proposals on the principles that should underpin grant distribution arrangements?

Neil Kinghan: As I said, the LGA represents all local authorities in England and Wales, which makes us wary of offering any specific proposals for changing the contents of the formula. This is a zero-sum game and anything that benefits one set of authorities inevitably disbenefits another set of authorities. We do not seek to offer specific proposals for improving the formula that would in any way change the distribution between authorities.

Our main point, which is along the lines of the points that we made earlier, is that we would prefer the distribution system to be less significant for local government than it is at present, because that would mean that local government would have more control over its own income. The distribution system has become significant in the past few years because of the dependency culture that we talked about and because the SSA mechanism in England was the basis for capping a few years ago. That put more strain on the system than it could take.

The system could be improved; it could be made more transparent. At present, it is almost completely opaque. It used to be described rather like the Schleswig-Holstein question. Three people could understand it—the first was dead, the second was locked up in a lunatic asylum and the third, who was describing it, had forgotten the answer. The SSA system is not quite as bad as that, but it is opaque, partly because too much jargon is used.

Any system that distributes a large amount of money—the SSA system distributes £50 billion—will be complicated, but it does not have to appear complicated. Much could be done to make the system more transparent. We could also have a more stable and predictable system. The LGA welcomes the efforts in that direction of the Government in Westminster, which is setting three-year settlements, for example, which allow local authorities to plan ahead. The system could be made fairer, but I am wary of using the word

“fair”, because it means something in local government finance that it does not mean in the rest of the world.

Mr McMahon: You made clear the principles that you work under. We have heard concerns about the methodology—the statistical techniques—of grant distribution, such as regression analysis and multilevel modelling. Do you have ideas on how they could be changed to improve the distribution system?

Neil Kinghan: I do not have many such ideas. It is important to us that the formula continues to be objective, that at least the experts can understand it, that the formula cannot be manipulated and that it does not involve too much subjective judgment. As members might know, a proposal was made in England to replace the existing formula-based system with one that is based on the submission of local authority plans to ministers for judgment. We vehemently opposed that, because it would have significantly extended central Government involvement in local government decision making. We are glad that the Government seems to have moved away from that.

It is right that arguments about improving the methodology should continue. One should continue to try to improve statistical techniques. I am not expert enough to say whether multilevel modelling or regression analysis can be improved, and I doubt that the committee would welcome it if I did. The system in England distributes money among 410 local authorities. Any system that distributes money will be rough and ready to an extent and will never satisfy everyone. On the whole, people in local government are grown-up enough to recognise that. We must continue to make that point while saying that the best answer is to make the system less significant by letting local authorities raise more of their own money.

Iain Smith: We have discussed with Scottish local authorities whether the grant distribution mechanism is too complex and what the balance between complexity and fairness should be. That is difficult to judge. The SSA system has fewer elements than the Scottish grant system. Does the SSA system have enough elements to make it a fair distribution system, or should it be more sophisticated?

Neil Kinghan: The last thing that I should do is compare the English and Scottish systems. That would not win me supporters on either side of the border.

The Economist published an article about the SSA system about five years ago, in which it was pointed out that, every 10 years or so, somebody says, “The damn system has got too complicated. We will tear it up and have a much simpler one.” What happens over the following 10 years is that it

becomes more and more complicated again. So far, we have resisted that temptation in England in the recent past, although people are now looking for improvements.

As I said, improvements can be made and we should continue to look for them. The LGA thinks that any system that distributes such a large amount of money must have some complexity about it. There are important differences in resources and needs between local authorities, and those should be recognised by the system. However, there will always be an element of roughness and readiness about it, and we should recognise that while, at the same time, making it as good as we can.

15:00

Iain Smith: Thanks for that. I was going to ask you earlier about your comments on new sources of income. Can you clarify whether you are seeking additional or replacement sources of income? For example, if local income tax was introduced, would it partly replace the council tax or would it be additional to it? Would it increase the size of the cake or just the slice of cake that is raised locally? Would you expect the introduction of a local income tax to mean a reduction in national income tax; or, if a local sales tax was introduced, would there perhaps be a reduction in VAT as a counterbalance to it?

Neil Kinghan: The LGA’s policy is that the best way of dealing with this proposition would be by returning the business rate. I raised the other options because I was asked what the alternatives would be.

If a local income tax were to be introduced, it would most likely be as a replacement for some revenue support grant. In effect, it would replace an element of national income tax, as that is the source of RSG. It could be used to replace council tax, but it is not clear that that would be necessary. The council tax is a reasonably successful and stable tax. If a local sales tax was introduced, as you say, any Government that introduced it might decide that it ought to take up a share of VAT. We are regarding these propositions as alternative means of raising broadly the same amount of expenditure, rather than as adding to the cake—to use your metaphor. Local government would always be willing to spend more money if it thought that there were useful things to do with it; however, we are talking about alternative sources of income rather than additional ones.

The Convener: We nearly started to discuss a reserved matter then.

I have two quick, final questions. First, if there was one aspect of the system that you wanted to change, what would it be? Secondly, do you feel

that successive Westminster Administrations have been reluctant to take a root-and-branch look at local government finance because they have not wanted to add to the autonomy of local authorities?

Neil Kinghan: I am going to cheat and answer your first question with a double answer. In the short term, I would like a stopping of the increase of specific grants and a reversal of it. The Government has it in its power to do that quickly. In the longer term, I would like a return of the business rate, which would address the problem more substantially.

Not all Governments have been ambivalent to local financial autonomy. Once or twice, Governments have taken the view that that is not something that they wanted at all; but, for the most part, both the previous Conservative Government and the present Government have seen much virtue in local financial autonomy, albeit constrained within national limits. The fact that they could not bring themselves to let go is a large part of the issue. That is why propositions such as local public service agreements have a long-term significance; in the long term, they may persuade the Government to let go. They need to be brave, as they used to say on "Yes, Minister".

The Convener: We seem to have exhausted all our questions. I thank the witnesses very much for taking part in this long session, which has been very helpful to us. I wish you both a safe journey home.

Comrades, we now move to the second part of this agenda item. I welcome Colin Mair, who is the director of the Scottish local authority management centre at the University of Strathclyde. After you give us a short presentation on your submission, I will open up the floor to questions.

Colin Mair (University of Strathclyde): I thank the committee for inviting me to give evidence this afternoon.

I should begin with an apology. When I wrote my submission, I was operating on the assumption that I was being invited to keep it to five pages. I could have rambled on at greater length. As a result, the paper is fairly compressed, which is something that the committee will probably welcome. When I received the evidence from the Convention of Scottish Local Authorities—which I found hard to pick up, never mind read—I realised that other people had not been so restricted. I also want to thank the committee for having this inquiry, as it caused me to stand back and rethink in a new way statements that I had made or written before.

The core of my submission is the way we think about the issue of local government finance. As I

wrote the submission, it occurred to me that the reasons cited for financial reform are very often nothing to do with the classic financial management reasons of greater efficiency, resource allocation and so on. They are largely pitched at a constitutional level and centre on issues such as how we secure greater local democracy, autonomy of choice, responsiveness to local people and the proper relationship between the Parliament and local government. Neil McIntosh's report called for a review of local finance precisely for such constitutional reasons. There has also been a second line of attack from people who have been concerned by what they take to be the inequity of the local fiscal system and who have therefore advocated what they take to be fairer alternatives in local taxation.

I will argue that both views are entirely wrong-headed and cannot be accomplished through reform of the finance system. As a result, the way forward is not through tinkering with local taxes or with large elements such as the balance of funding between central Government and local government.

The focal issue, which cropped up a lot in your discussion with the LGA, is what has been christened the 80:20 issue. I think that the balance is slightly better than that—it might be 76:24—but it is still not impressive. In any situation where 75 to 80 per cent of local income is centrally controlled and allocated, local authorities' ability to make choices will be substantially negated. If we want local autonomy, we need to change that system.

In my submission, I have tried briefly to argue that, particularly in the past century, local government evolved and grew in scale and importance because it has taken on responsibility for national programmes such as education, social work, child protection and community care that are perfectly properly governed by national criteria. If we go back to the 19th century, we find that local government had no responsibility for such programmes at all. As a result, the scale and importance to us of local government are a product of an historical evolution during which local councils stopped doing particularly local things and started to take on major, highly guided, national responsibilities for national programmes.

Perhaps an answer to the 75:25 funding question is that 75 to 80 per cent of local income is not spent on programmes that councils have elected to implement because their local people feel like it but on major national programmes such as law and order, education and social work. Such programmes are based on both national and, in some cases, human rights, and the idea of local autonomy with respect to such programmes in an era in which human rights are more pronounced

and legislated for is simply nonsensical. I have a two-year-old daughter and, in relation to her education, if we moved from East Ayrshire to East Renfrewshire, I would not wish her rights to vary. I would like to be able to assume that, wherever I might move to in Scotland, my daughter's right to access a certain standard of education, a certain curriculum and a certain system of assessment will not vary.

Local authorities ceased to be local quite a long time ago. They now work hand in hand with national Government to deliver national programmes. Older ideas of local autonomy and distinctive local accountability make little sense. The problem is that, as that movement has taken place, we have been unimaginative in thinking of ways to create proper accountability for those national programmes that are locally managed.

I will give you an example of the classic accountability problem. If I were to phone up my local council to say that I was not happy about the level of home care that it was offering my mother, the council might say to me, "We'd love to give her more care but these sods in the Scottish Executive won't allow us to do that". In fact, that is what my council has said in the past. If I then spoke to the minister to ask why he is denying my mother in that respect, he might point out that the Scottish Executive gives the local council £120 million and that, if it chooses not to spend that on my mum, that is its business. We have ended up with a wonderfully unaccountable system. The minister is telling the truth: there is £120 million and there is a significant level of local choice about how it is to be spent. Likewise, the council is telling the truth: had it more money, it would spend more on my mother. Because we have not thought about how to deal with what we might call national-local programmes in terms of decision making and accountability mechanisms, the system is not very accountable. That is not a finance problem.

We cannot resolve that situation by handing the business rate back to councils to arrive at a 50:50 balance of funding. Even if we did that—and leaving aside issues relating to ring fencing—about 75 per cent of local spend is completely driven by national statute that is reinforced by guidance, which is further enforced by regulatory frameworks that ensure that councils deliver to an appropriate standard. It is not as if councils would start to make fundamentally different choices if they controlled 50 per cent of their income. The honest truth is that they would end up making much the same choices as they do now.

My suggestion—which is expressed incoherently in the paper and is also incoherent in my head—is that we need to evolve frameworks for joint decision making between the Executive and the leadership of councils. That will ensure that, in

relation to national programmes, the local leaders and national leaders come together to decide what rights there should be and to make other such decisions that, at the moment, are made nationally. Once the rights have been decided on, they can discuss honestly the funding that will be necessary to ensure that we are able to deliver them. If both the Government and local government are to be responsible for the programmes, it is also important that they work out the joint accountabilities that they are signing up to. At the moment, the Executive and councils play a game of hide and seek. I accuse you, you accuse me and nobody can tell who is accountable, which is profoundly unhelpful for the public.

McIntosh suggests that we have a constitutional problem because of the financial problem but I would like to stand that on its head and state that we have a financial problem because we have a constitutional one: we have not worked out a set of relationships between the Government and local government in relation to national programmes.

Some of the proposals and work that COSLA has done in the past year or 18 months has focused on such questions as how we can achieve more coherent planning between council leaderships and ministers, how we can get councils and the Executive to sign up to local outcome agreements, and how we can have a discussion about local accountability that goes wider than statutory performance indicators or anything else that occurs to people at the Audit Commission or Audit Scotland. That work is beginning, but there is still a long way to go, and there has to be an element of joint decision making.

15:15

I do not think that financial reforms will make much difference. I illustrate that view by drawing the committee's attention to the proposal that might most quickly and obviously spring to mind: returning the business rate to being set, collected and kept by councils. The first question to address is whether that would be constrained in any way or whether the increase in business rate would be pegged to the increase in council tax to stop abuse and exploitation of the business community or pegged to inflation. The moment a discussion about pegging starts—the business community would immediately press members on that—we begin to say that what is being handed back will be controlled centrally in any case. It would really be handed back only if it were handed back unconstrained.

Secondly, even if you gave back that balancing element, the statute, guidance, regulatory frameworks and inspectors would all be there. The

pattern of council spend would therefore be no more determined locally than it was before. It would just appear as if local authorities controlled more of their own income.

If we argue that councils can be properly accountable only if they both raise the money and decide what to do with it, the same must apply to the Parliament and the Executive. The 50 per cent that would still come from the Executive would have to be entirely hypothecated so that it could be accountable for why it had handed that money over to the councils. Against the Local Government Association's argument, that would make the situation significantly worse than it is now, rather than significantly better. I suggest that financial reform will not sort out the core difficulties about decision making, accountability and performance. We have to come at those problems in a quite different way and recognise them for what they are. A more mature relationship needs to exist between the Executive and councils in that respect.

A large part of the argument for a local income tax has centred on equity. My own view is that one can meaningfully apply the idea of equity only to the incidence of all taxation on households, because we know that there will always be some taxes that are not equitable in their incidence. At the moment, we have excise duty and VAT, which are inequitable taxes in the sense that they cost the poor more than they cost the rich. The tax package will always contain individual elements that are regressive in character. The question is whether they are sufficiently balanced by progressive elements of taxation. I think that the Scottish Socialist Party's proposal for a Scottish service tax illustrates that to a nicety. First, it cannot be local, as the mechanics would not work at that level. Secondly, it is not legal under the Scotland Act 1998, so it is a completely irrelevant proposal anyway.

The honest truth is that, if we want a more equitable taxation of Scottish households, the Parliament would need to argue for a national shift in the balance of income taxation and consumption taxation. That also needs to be argued for at Westminster. It cannot be done by tinkering with a local level of tax. Income tax is a shot fox at Scottish level. The Scottish Parliament has an income tax-varying power. In most countries where there is a local income tax, it is a tax-varying power. We would then end up with three levels of income tax in Scotland, and no property tax at all. That strikes me as utterly bizarre. The taxation of property is a proper part of any taxation system.

We may want to add taxes on. We have the council tax and we could bung a few others things in. Councils have explored quite a lot of charge-

type taxes. For example, we tax parking quite heavily in Glasgow and Edinburgh, almost to a punitive level. Congestion taxes have also been advocated. If one looks around Europe one finds that, as a crude rule of thumb, the more taxes a local government system has the more utterly irrelevant that local government system is. The more centralised the financing of the system the more important it is in terms of the nature of the programmes that it delivers to the public.

My final three points concerned distribution. I think that there is certainly a case for independent review of that. For the reasons that were mentioned in the discussion with the witnesses from the Local Government Association, in Scotland there are real issues relating to distribution. Frankly, I do not think that in the formula that we currently use they are issues of complexity, but issues of simplicity. A standard grade pupil with a calculator would not find our current methodology complex. There are many treatments, but they are all fairly simple—and sometimes completely wrong. COSLA is no longer in a position sustainably to address and resolve those problems. Giving it space by having the question of distribution reviewed independently—by something like the Arbuthnott committee—would almost certainly be useful.

The Convener: Thank you. In your view, do councils have any role to play in the development of policies for delivery of major services such as education and social work? If so, how can councils play that role when central Government controls such a high proportion of their funding and leaves them little room for manoeuvre?

Colin Mair: Councils have an absolutely critical role to play in policy development. We often talk about the Executive and local government in terms of policy and implementation. In my view, local government can bring two important things to the table in policy making. If we are dealing with national rights, we need bodies such as this committee and the Executive to consider the issues on a Scotland-wide basis, but we also want different communities around Scotland to make local and distinctive inputs into that process. If council leaderships and ministers were pulled together to reach decisions, those would be enriched as part of the plural democracy in Scotland.

Local government also brings experience to the table. The committee has discussed ring fencing and its difficulties. In my view, the biggest difficulty is a practical one. Ministers' attempts to drive through particular agendas have damaged those agendas at a local level, because ring-fenced funding came crashing through policies that people were already implementing and disrupted for a time work that was already established and

continuing. It is critical that local government should feed that experience into the policy-making process, instead of being simply at the implementation end of policies.

If policy is evolved jointly by councils and the Executive, the issue of who controls what purse strings will become part of the debate. Once a policy has been decided, a discussion of how that policy is resourced and of the appropriate mechanisms for doing so will logically follow. In my view, the critical issue is to sort out joint policy making. The finance will follow from the decision making in that process.

The Convener: The Social Work (Scotland) Act 1968 gave considerable autonomy to local authorities in determining policies and procedures. I think of the way in which it was used during the miners' strike and the way in which it has been used to deal with asylum seekers and refugees. Are you saying that those issues should now be dealt with by legislation decided on in Edinburgh, when previously they were very local matters? Where does article 3b in the Maastricht treaty, on the principle of subsidiarity, fit into that debate?

Colin Mair: I am not arguing that policies should be decided in Edinburgh, rather the opposite. They should be decided mutually by people from throughout Scotland. It is clear that the Social Work (Scotland) Act 1968 has been driven by guidance such as that issued very recently to councils in areas such as community care. The Executive is closing down space that the Social Work (Scotland) Act 1968 opened up—not so as to facilitate joint decision making, but in order to drive forward policies. In many cases councils agree with those policies, but the process is being driven very much from the centre. Let us take, for example, the proposal that ministers should be given a power of direction, so that if local partners in community care are not delivering quickly enough for the Government ministers can instruct such delivery. To me that does not look like a partnership or joint decision-making approach.

All the documents that argue for subsidiarity are extremely worth while. We need to ask how that can be implemented in programme areas in which human rights are the issue. It is very interesting that, at the same time as it has advocated subsidiarity, the European Union has advocated very strongly invariant human rights throughout Europe. Within countries it is likely that certain postcode lotteries will be challenged. However, one person's postcode lottery is another person's democratic local variation. We need to decide what can be handed down to councils. In my view, the major national programmes will have to be jointly agreed for the whole of Scotland, but there should be a very strong council input into those decisions.

The Convener: I have one quick question before I call other members. I do not think that this is what you said, but are you arguing that councils should accept that their job is primarily to administer national services?

Colin Mair: The reality of service management is that that is already the case. However, the primary job of councils should be to represent their communities. That needs to be built into the decision-making element of national programmes and not merely into locally decided programmes.

Iain Smith: I want to explore that slightly further. It would be possible to take part of your written submission as implying that the 80 per cent of services that are determined by national programmes should be directly funded by central Government and that councils should be involved in the funding of only the other 20 per cent. Will you comment on that?

Colin Mair: My guess is that, if the balance of GAE is examined, support would be found for things that are purely locally decided. The vast bulk of the support that comes down the line through GAE is entirely directed towards national programmes, including social work, the police and education. We have already arrived at that position.

Given the different tax bases of different councils in Scotland, there are good equity reasons that would make it hard for some councils to deliver services including education and adequate policing without the allocation of a significant amount of central support. To some extent, that could be said to be the reason for the evolution of the grant system. I do not advocate that, but I recognise that, de facto, it is the case.

Iain Smith: Although GAE is a method of distributing grant, councils can and do spend more or less of their GAE. There is a significant variation between councils in how much they spend above or below GAE on their services. Will that change over time? Will councils spend closer to GAE?

Colin Mair: It is interesting to examine the variations in GAE. To do so raises issues about the adequacy of the distribution, as the variations are systematic. Some clusters of councils spend around 95 to 96 per cent of GAE on education. Those councils tend to be in more affluent areas with a socioeconomic composition that implies relatively low need, not no need. Other clusters of councils spend 107 to 110 per cent of GAE on education. It is possible to argue that the current variation compensates for the inadequacies of the grant formula and that it is more systematic than random.

I am not arguing that there will not be variations in spend and in service areas. Even if we had nationally agreed minimum standards in all areas

of social care, some councils could legitimately choose to seek to spend above the minimum standard. I do not have a problem with that. The key issues revolve around how councils get involved in the first place in core decision making about national programmes. At the moment, councils are consulted, as is everyone else, but they are not involved as joint partners in that decision making.

Iain Smith: I have another quick question. I find the points that you make in your paper about local taxes interesting. You mentioned in your presentation that it would be bizarre not to have a property-based tax. Will you explain further why a property-based tax on the sole or main residence is needed?

Colin Mair: Income is already taxed and property is the other major way that the majority of us hold wealth. Preferences in local communities significantly determine property values, which vary up and down over time, reflecting the choices that people make in local housing markets. There is something appropriate about taxing values that are generated by communities to finance local services. That is important, as a lot of wealth and value is tied up in property. Given the range of things that we tax through VAT and so forth, I simply do not see why we do not have a national tax structure that taxes domestic property. Property-based taxes seem to complement the national tax structure. We have income taxation, consumption taxation and corporate gain taxation, for example. It makes sense for property taxation to be seen as part of a national tax package.

15:30

Mr McMahon: I would like to know more about your views on joint policy making and decision making. Listening to your arguments, I foresaw some practical problems. Those problems may be political, but what you said was fundamental to the idea of local democracy and representing communities.

The problems would arise if the local authority and the central Administration were of different political hues. For almost two decades, Labour local authorities argued that they were acting on behalf of local communities which wanted their services to be delivered in a way that was at variance with that proposed by central Government. The same situation arises in Scotland today: there are elected local authorities of a different political persuasion from the Scottish Executive. Practical political differences will not go away. It is perhaps a bit naive to think that we could have joint policies and joint decision making when central Government and local government are at such variance.

Colin Mair: Imagine that we are considering changing the legal framework for community care. I am suggesting that councils—either individually or through COSLA—would send a group of people who lead on community care to a policy forum to meet the ministers who are responsible for community care. Together, they would arrive at proposals on how to make progress. In fairness to the Executive, some of its policies, such as those involving the joint future group, have developed in that way, more or less—ministers have got together with people from councils and the voluntary sector to consider and agree on what needs to be done and how it should be resourced. In the case of the joint future group, agreement was unanimous.

I am not naive enough to imagine that there will always be perfect agreement between people from local government and ministers, but unless we at least start to seek such agreement as a necessary part of a more modern approach to decision making and accountability, we will be perpetually stuck in the present situation in which national legislation, guidance and regulations override local choice. I can see no way round that, other than breaking down the existing framework and creating a different framework for decision making and accountability.

As I suggested, the beginnings of that have been seen in the work that has been done on local outcome agreements, for example. I note in my paper that progress on such ideas has been slow—some of them will fail miserably and come to nothing. However, I suggest that short, sharp measures on local finance will not resolve the problems either. As long as the current national framework exists for major service areas and is backed up by regulations, I do not see how you can salvage the kind of local decision making that you want.

Mr McMahon: We have all heard evidence to suggest that the problems will not be easy to resolve. However, we should start from the fundamental principle that local authorities should be held in the same esteem as the Parliament. Local authorities are democratically elected on the basis of party manifestos, which may be at variance with central Government proposals. People are sophisticated enough to be able to distinguish between what they want at a national level and what the local parties say in their manifestos they will deliver at a local level. If we took away the fundamental right of parties to present manifesto proposals, which may require funding at a different level from what central Government says it will accept, we would surely be undermining the whole principle of local government.

Colin Mair: What you describe is exactly what is happening—but you seem to regard that as problematic. Yes, councils can present their manifestos, but those manifestos are frequently steamrollered by national agendas backed up by guidance, statute and performance requirements, for example.

We should not start off from the premise that we have somehow been in the situation where many of the things that you are looking for actually existed. For programmes where national issues and human rights are at stake, it is not appropriate for those things to exist. In other words, the rights of my daughter to care, protection, education and a variety of other matters cannot be set at a local level. There should be a local perspective in national decision making on such matters, but in no imaginable scenario could such matters be decided differently in East Ayrshire, North Ayrshire, South Ayrshire and East Renfrewshire. Indeed, you would find yourself in the European Court of Human Rights if you set about allowing human rights to be determined in local authority boundaries and at variance with what was happening in other local authority areas.

According to your model, we should just take away from councils much of what they do: get rid of education, social work and the police, which would reduce council responsibilities to about 25 per cent of what they are now. The funding would be appropriate and councils could decide whatever they wanted about swimming pools, admission hours and library books, for example. However, if you want local authorities to carry on with the major national programmes that they look after, which deal with human rights, there has to be a national dimension and there has to be a reconciliation of the local and national perspectives.

Tricia Marwick: In your submission, under the heading “Specific Comments”, you argue that there are difficulties with distribution. A number of alternatives have been examined. You think that the solution is to have an independent inquiry into distribution. Do you see that as a one-off inquiry or do you see the inquiry eventually leading to a body that would distribute the moneys?

Colin Mair: That is one of the issues that you would ask the inquiry to consider. Ministers should not invite COSLA to advise them on the matter. It is interesting that colleagues from the LGA said that it is not their role to take a stance because there are 450 councils that, frankly, do not agree with one another.

COSLA has suffered badly over the past three years as a consequence of the instabilities that have been generated by its trying to give advice on matters about which councils are not unanimously agreed. It would do COSLA good no

longer to be involved with distribution in that way. An inquiry would give significantly more credibility to ministers’ decisions about distribution, because the advice would be independent.

I would settle for something like the Arbuthnott committee in the health context, which was admirably clear and concise in its recommendations. Most important, no one on that committee had a vested interest in the outcome; it had a degree of authority through that alone. The trouble with COSLA and the distribution committee arrangement is that everyone has an interest in the outcome, which calls into question the decisions that are made and the advice that is given to ministers. There may be a case for ministers getting their advice independently of COSLA; I suspect that that might help COSLA as well.

Tricia Marwick: You mentioned Arbuthnott. Do you see similarities between the national health service in Scotland and local government in Scotland that would allow such an independent inquiry to take place?

Colin Mair: If we have come to a point where the mechanism that we are using and the underpinning distribution committee arrangement do not command authority and assent, we have to consider an independent approach. That will be contested. I am being assertive: councils that say that there is nothing wrong with the current distribution arrangement are, on the whole, the ones that think that that arrangement is their best bet and that an independent inquiry would do them some damage. There will be different views, but the fact that the different views exist makes it unlikely that Scotland’s councils will resolve, round the table and in an equitable fashion, the question of distribution.

We have commissioned at great public expense a vast amount of work, much of which, for example, has concluded, “Deprivation should be rated higher, it’s just that we can’t work out a way of weighting it.” The issue is that we are producing reports that say, “There is something wrong with the system, but we cannot work out what to do about it.” We should give people with a fresh eye a time scale and ask them to examine the issues.

In areas such as community care, where the Executive is talking about single funding streams and so on, it would begin to make some sense to say, “If the Arbuthnott index”—which combines health, morbidity and socioeconomic data about population—“makes sense for the health end of community care, is it worth looking at whether it would be an appropriate way of allocating money to councils?” One of the difficulties that we face is that, at the same time as Greater Glasgow NHS Board is receiving more money through the Arbuthnott formula, the GAE formula is taking

money away from Glasgow City Council. That does not seem to make much sense as a joined-up approach to financing joint Government programmes.

Ms White: Two themes seem to run through your submission: the legitimacy of local government—that it should not simply be an administrator of services—and finance, which we are discussing today.

Michael McMahon mentioned how different councils are of different political persuasions. We should bear in mind the fact that it is sometimes a good thing for local councils to be of a different political persuasion from central Government. That is what we call democracy. That is the first thing that we must get corrected.

The convener asked whether you thought that local government should simply be an administrator of services. Will you elaborate on your answer to that point? In your answer to Iain Smith's question, you said that local councils could get on with things that were local to them, such as issuing library tickets and extending opening hours. I doubt that local councils would like that answer. A lot of talented people work in local government.

On a number of occasions, you mentioned that you live in South Ayrshire—or was it North Ayrshire or somewhere else? Anyway, places such as South Ayrshire, Perth and Kinross and even Angus contain a large proportion of elderly people who would like some of the money that is given to local government to be spent on care for the elderly, whereas Government policies are currently more concerned with education and child care. If local councils wish to spend their money more fairly by spending more on care for the elderly and that is the democratic will of the people who elected them, should they not be able to do that?

Local councils are important. First, they introduce a further democratic tier. Secondly, they can act as checks and balances to central Government if they are of a different political persuasion. Thirdly, each council can concentrate on its own top priorities. Perhaps we would get clearer answers if there was a different system of local government finance, such as a local income tax, or if business rates were returned to local government. However, your submission seems to want to centralise things and seems unfair to local government.

I know that I am supposed to be asking questions—

The Convener: I was wondering when you were going to ask a question.

Ms White: I seem to be stating things rather

than asking questions—

The Convener: There is no seeming about it.

Ms White: I am sure that Mr Mair will be able to read through the lines and answer my points.

Colin Mair: Ms White said that I seemed to be advocating centralisation. I actually argue that the role and status of local councils in Scotland should increase. Decisions have been made at a national level and handed down using legal force, but that should not happen. Local councils should take part in determining what those decisions are. The local perspective needs to be built into national decision making. If anything, I argue quite the reverse of what Ms White said I do. Not only should local councils have responsibilities towards their local electorates, but they should be a major part of national decision making within the Scottish context.

Councils should be able to have distinctive local priorities, but there should be guaranteed minimum standards for things such as care for the elderly. Older people should be guaranteed that they can access their rights, wherever they are in Scotland. Therefore, there will always be a limit to local variation. Local councils should be able to spend more, but they should not be able to spend less, on areas that involve people's rights.

I do not argue for centralisation or for a diminution of the role of local government. I am saying that we need to build the local into what we call the central. That dichotomy between central and local strangles us in these debates. We need to break down the sense that one lot have the right to make decisions about the other lot. Instead, we need partnership in decision making on important public services. That seems a much more constructive basis on which to evolve.

Mr Harding: Thank you for a refreshing and thought-provoking submission.

The Convener: Spot the Tory.

Mr Harding: I trust that Michael McMahon will support the holding of elections on a separate day so that the electorate can easily distinguish between the manifesto policies of local council candidates and those of Scottish Parliament candidates.

Mr McMahon: I think more of the electorate than you do.

The Convener: Can we stick to the agenda?

Mr Harding: The written evidence appears to advocate the retention of a centrally determined non-domestic rate, the retention of the income raised by the tax locally and the introduction of a new tax base equalisation element to the grant distribution system. What benefits are there in that approach?

15:45

Colin Mair: My submission was probably extraordinarily badly worded. It attempted to say that the decision that has to be made is whether the business rate should be handed back to councils in an unconstrained way—will councils set and collect the rates with no constraints, pegging or benchmarking? In a book that I wrote with Arthur Midwinter a long time ago, I argued that there was no case for taking rates away from councils, so I suppose that, as I have become old and grey, I have stood on my head on the matter. That is partly because, as we now have a uniform business rate, a case must be made for moving away from that. We must consider how we deal with the uniform rate in terms of the pooling mechanism and the distribution mechanism. Certainly, some in the business community argue that the uniform rate distorts decision making on business development.

The classic example of that relates to the proposed quarrying development in Harris. It would have involved chopping the top off a hill and using huge barges to transport the material somewhere else. It was claimed that, if Western Isles Council had been allowed to keep the local business rate, about £1.5 million would have been put into the local economy. The view was that that would have caused local people to think more about the balance of disamenity and amenity in relation to the development going ahead. Because of the pooling system, the vast bulk of the rates revenue would have gone elsewhere, as the population of the Western Isles is a small proportion of the Scottish population. Allowing councils to retain more than the pooling system allows them to retain would be a step towards retaining a link between local amenity or disamenity and industrial development. There would still have to be some sort of equalisation to take account of the differing tax bases that different councils would have.

I accept that there is a straight argument for returning the power to set business rates to councils, but I think that it would be greeted with vehement opposition by the business community for reasons that go right back to where we started: why should the same sort of business with the same sort of property value attached to it be taxed in completely different ways in Inverness and in Glasgow?

I was trying to explore options in my submission rather than arrive at conclusions, but I think that there is a case for examining whether allowing councils to retain more than the pooling system allows them to retain would encourage the link between business communities and their councils.

Mr Harding: Why do you consider that a variable, locally set non-domestic rate would be

inappropriate for Scotland, given that such a rate works successfully in some European countries, most notably France?

Colin Mair: A lot of the reasons for its success in other countries are psychological and cultural. When we had a locally set business rate, there was a huge amount of whingeing about it, largely from people who found themselves disadvantaged because of the length of time between revaluation processes. That led to the argument that there should be standard taxation for business across Scotland. There is a case for seriously considering why the same sort of business with the same sort of turnover and property value should be taxed significantly differently in two parts of Scotland. In the cases of Glasgow and Edinburgh, it could be argued that the competition between the city authority and the surrounding suburban areas will control the level of rates, but it is less clear that there is a direct competitive mechanism in relation to a difference in the rates in Glasgow and Inverness.

There is a case for uniformity, but I accept that when the business rate was set locally, the money amounted to only a small part of property occupancy costs for businesses. Small businesses were affected, but large businesses paid colossal rental values for premises in central Glasgow and Edinburgh anyway, so the rates were an extremely small proportion of their occupancy costs.

That argument can be countered readily. In my view, if we were to go down that route, we would have to make a case to explain why uniformity in business taxation is deemed not to be appropriate, but it is deemed to be appropriate with respect to other taxes.

Mr Harding: In your submission, you suggest that we could redress the 75:25 imbalance and have a 50:50 balance, by removing some of the national service responsibilities from local government. I advocate the removal of education from local government responsibility by funding schools directly and giving health boards funding for health-related social services. Your submission indicates that you believe that that would

“create a raft of major new quangos”.

Why would that happen?

Colin Mair: You have just identified a quango to which you would give social work responsibilities. You would not create a raft of new quangos, but you would make existing quangos bigger. I am not entirely clear about your suggestion. Would school boards run education or would you create education boards as an intermediary?

Mr Harding: No, there would be no education boards. The Scottish Executive would provide direct funding to schools.

Colin Mair: I would certainly not want to be the person who had to sit down and work out the formula for such funding. I suspect that we could spend the next decade arguing about why primary school X ended up with the funding that it received. Issues such as how to weight deprivation and so on would kick in with serious vengeance. I guess I assumed that if you were going to remove such major services from local government responsibility, you would establish, say, four boards—one each for the north, south, east and west of Scotland or whatever. I make it clear that in no sense was I arguing in support of that approach; in fact, I disapprove of it. It does not fit the approach that the Executive wishes to take, which is for services to be democratically controlled rather than run by appointed bodies. All I was saying was that if we want to return to purely local local government, we would get rid of all the problems by stripping it back to the issues that are properly and sensibly decided locally.

Dr Jackson: Our discussion is certainly thought-provoking, but I am a little bemused about your reply to Michael McMahon's question. Is your approach one of depoliticising the system in the hope that common sense will ultimately win through? Alternatively, are you working on the rationale that national Government is most important, as it oversees 80 per cent of local government funding, and that local government simply tinkers at the edges? I know you keep talking about "local", but if you go into it—gosh, I am going to have the same problem as Sandra White had.

The Convener: Yes, you are.

Dr Jackson: I will leave it at that. Which of those approaches underlies your work?

My substantive question is about the comment in your written submission that

"the more taxes a local government system has the less important the role of local government".

In which countries do local authorities raise a bigger proportion of their funding from local taxes than Scotland does, have access to a wide range of local taxes and therefore have a less important role than they do in Scotland? Will you outline the future role that you envisage for councils and the extent of their autonomy? How is local government to attract high-calibre politicians and staff in future if it has little autonomy or accountability? What would be the implications for the government of Scotland if local authorities were unable to attract politicians of the calibre that they have attracted in the past, many of whom are now members of the Executive?

Colin Mair: On your first question, I guess that you are bemused because I am still slightly bemused and confused about what I am saying,

so that is not a failing on your part. I think that I am arguing that we have tried various ways of approaching local government finance in the past. One way was for central Government to make the policy and local government to tweak it to fit local circumstances. In that approach, local autonomy is about tweaking things, which seems to me to be a relatively undignified role for local democracy, to be frank.

On the other hand, given the points that I have made about major areas of civic and human rights in which local government has responsibility, a national framework must be in place. I am almost saying that I would like local government to be involved in deciding what the national framework should be. I am not more ambitious or less ambitious in that respect. It is not unreasonable to argue that, within the virtual constitution of Scotland, we should get away from the idea of local government as simply the legal creation of the Parliament which can be dealt with accordingly. We can begin to believe that local government has a genuine constitutional locus and importance. If we set a framework for education—what kids can get, when they can get it, what they should be taught and how they should be assessed—there would be a huge benefit in decisions not being taken in Edinburgh in isolation from the leaders of local councils. There would be much more Doric, for example, in the syllabus. People would advocate more oral assessment of students' competence as opposed to purely written assessment. Distinctive communities and traditions would be reflected. I am not arguing that Governments should make the national framework and hand it down to councils, which would be stuck with it; I am saying the opposite. If we want a plural democracy that makes decisions, we must get local and national perspectives together and negotiate.

On the countries that were in my head when I wrote the submission, I must say that there are glib, silly things in the submission that one thinks are funny at the time and regrets when somebody asks a question about them, but I suppose I had in mind Spain and Portugal. Those countries have a wide range of taxes, but they tend not to add up to a row of beans. I did work a couple of years ago on Malawi. Almost infinite tax bases are available for local government, but taxes simply cannot be collected. Even if they could be, the costs would probably outweigh the benefits. My point was that, in a sense, multiplying tax sources would not be an answer to the financial capacity that councils must have. In that, I agree with the LGA's comments.

On local autonomy, I invite the committee in its report to say what local autonomy means in respect of education, the care of older people and the rights of people with learning disabilities. What

local autonomy is being talked about? I do not understand how the concept applies to such rights. The committee may understand the concept significantly better from its discussions and deliberations. The concept of local autonomy is misplaced in some areas. There must be a partnership and I want the local end of the partnership to influence the national framework.

The problem of attracting local members was mentioned. Unquestionably, one problem relates to how councils have been treated financially since 1996-97 and for around 20 years prior to that. They were beaten around as acts of national policy. If, in the virtual and unwritten constitution of Scotland, there was an idea that councils are genuinely part of the decision-making process, people would be much more likely to be attracted.

I am suspicious of slogans such as parity of esteem. Thomas Jefferson remarked that the problem with southern gentlemen was not that they did not esteem their slaves, but that they esteemed them as slaves. Parity of esteem between the Executive and local government has become like that. In the absence of mechanisms that would express what parity of esteem means, we sloganise. If there is parity of esteem, there is partnership in decision making. If there is no partnership in decision making, there is no parity of esteem—we should be honest about that. If the Executive wants parity of esteem, that is hunky-dory, but there is no point in bullshitting around it and wanting nice, cuddly-sounding things. If we could give local government higher prominence, other people would be attracted to it. It should be protected from arbitrary decision making. I agree with almost everything that the LGA witness said about the arbitrariness and destructiveness of ring fencing.

Media coverage plays a part. A three-year-old child might think that council in crisis are conjoined words because that is how they keep on appearing on television. There is a recurrent round of bad news stories and contempt, which means that it is hard to attract people in.

Many young people with great abilities are moving into a different kind of politics. In a democratic Scotland, I have no problem with that—they should not all go into local government and pursue careers there. Issue-based politics and lobby groups, for example, are a perfectly decent way of practising democracy and should be encouraged alongside participation in more conventional governmental mechanisms.

Dr Jackson: Thank you—that is much clearer.

The Convener: Sandra White promised me that her question would be brief.

Ms White: If you could make one change to local government finance, Mr Mair, what would it

be?

Colin Mair: To ensure that the Executive could make no decisions without having the leaders of councils together and agreeing decisions with them.

Mr McMahon: Was that a pig flying?

The Convener: The session has been good. I thank Mr Mair for attending—I appreciate that he had to wait a while before we called him. He has raised some interesting questions and answers.

Mr Mair: I thank the committee for its hospitality.

16:00

Meeting continued in private until 17:34.

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice at the Document Supply Centre.

No proofs of the *Official Report* can be supplied. Members who want to suggest corrections for the archive edition should mark them clearly in the daily edition, and send it to the Official Report, 375 High Street, Edinburgh EH99 1SP. Suggested corrections in any other form cannot be accepted.

The deadline for corrections to this edition is:

Wednesday 7 November 2001

Members who want reprints of their speeches (within one month of the date of publication) may obtain request forms and further details from the Central Distribution Office, the Document Supply Centre or the Official Report.

PRICES AND SUBSCRIPTION RATES

DAILY EDITIONS

Single copies: £5

Meetings of the Parliament annual subscriptions: £500

The archive edition of the *Official Report* of meetings of the Parliament, written answers and public meetings of committees will be published on CD-ROM.

WHAT'S HAPPENING IN THE SCOTTISH PARLIAMENT, compiled by the Scottish Parliament Information Centre, contains details of past and forthcoming business and of the work of committees and gives general information on legislation and other parliamentary activity.

Single copies: £3.75

Special issue price: £5

Annual subscriptions: £150.00

WRITTEN ANSWERS TO PARLIAMENTARY QUESTIONS weekly compilation

Single copies: £3.75

Annual subscriptions: £150.00

Standing orders will be accepted at the Document Supply Centre.

Published in Edinburgh by The Stationery Office Limited and available from:

The Stationery Office Bookshop
71 Lothian Road
Edinburgh EH3 9AZ
0131 228 4181 Fax 0131 622 7017

The Stationery Office Bookshops at:
123 Kingsway, London WC2B 6PQ
Tel 020 7242 6393 Fax 020 7242 6394
68-69 Bull Street, Birmingham B4 6AD
Tel 0121 236 9696 Fax 0121 236 9699
33 Wine Street, Bristol BS1 2BQ
Tel 01179 264306 Fax 01179 294515
9-21 Princess Street, Manchester M60 8AS
Tel 0161 834 7201 Fax 0161 833 0634
16 Arthur Street, Belfast BT1 4GD
Tel 028 9023 8451 Fax 028 9023 5401
The Stationery Office Oriel Bookshop,
18-19 High Street, Cardiff CF1 2BZ
Tel 029 2039 5548 Fax 029 2038 4347

The Stationery Office Scottish Parliament Documentation
Helpline may be able to assist with additional information
on publications of or about the Scottish Parliament,
their availability and cost:

Telephone orders and inquiries
0870 606 5566

Fax orders
0870 606 5588

The Scottish Parliament Shop
George IV Bridge
EH99 1SP
Telephone orders 0131 348 5412

sp.info@scottish.parliament.uk

www.scottish.parliament.uk

Accredited Agents
(see Yellow Pages)

and through good booksellers