

LOCAL GOVERNMENT COMMITTEE

Tuesday 20 November 2001
(*Afternoon*)

Session 1

£5.00

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LOCAL GOVERNMENT COMMITTEE

30th 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

Brenda Campbell (Convention of Scottish Local Authorities)

Councillor Drew Edward (Convention of Scottish Local Authorities)

Ian McKay (Scottish Trades Union Congress)

Councillor John Pentland (Convention of Scottish Local Authorities)

Grahame Smith (Scottish Trades Union Congress)

Councillor Pat Watters (Convention of Scottish Local Authorities)

Norie Williamson (Convention of Scottish Local Authorities)

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 20 November 2001

(Afternoon)

[THE DEPUTY CONVENER *opened the meeting at 14:15*]

Item in Private

The Deputy Convener (Dr Sylvia Jackson): The first item relates to item 3 on the agenda, which is on the way in which the committee will approach its work on the proposed Scottish public sector ombudsman bill and the witnesses who might be called. Do members agree to discuss that item in private?

Members *indicated agreement.*

Local Government Finance Inquiry

The Deputy Convener: Item 2 on the agenda is the local government finance inquiry. I welcome Grahame Smith, the deputy general secretary of the Scottish Trades Union Congress, Alex McLuckie, who is the senior regional organiser for GMB Scotland, and Ian McKay, who is the assistant secretary of the Educational Institute of Scotland. I should declare that I am a member of the EIS.

Grahame Smith (Scottish Trades Union Congress): I apologise for the fact that Robert Parker, the regional secretary of the GMB, is not here today. He is ill and Alex McLuckie has stepped in at short notice. We are grateful to him for that. We appreciate that the committee has rearranged its schedule to accommodate us today because we were unable to attend on 6 November.

We told the McIntosh commission that an independent inquiry into local government finance was necessary and, in the absence of such an inquiry, we welcome the fact that the Local Government Committee is conducting its inquiry.

Discussions about local government finance can be technical. The subject involves almost as many anachronisms as we deal with in the trade union movement. We do not claim to be technical experts and rather than deal with the technical aspects, we would like to concentrate on the practical ones, such as the impact of the current arrangements on services and on the staff who provide them.

The unions that are members of the STUC represent a large number of local authority workers. We also have among our members about 6,000 workers who pay local taxes and use local authority services. They and their families constitute a significant proportion of the population of Scotland. Our interests are as providers and consumers of services.

Our submission to the committee is brief—unlike some that we have seen. We found some of the papers that have been submitted to be informative and we make reference to them in our response. The conclusion of our paper summarises our views and the key issues that we highlight in our evidence. Those key issues are: that council tax should remain the main means of raising revenue for local authorities; that there should be adjustments to the balance between local and central funding, moving towards a 50:50 split; that the uniform business rate should be returned to local authority control; that consideration should be given to giving local authorities more powers to

raise other forms of income through other forms of taxation; that there needs to be less ring fencing of funds and more joint decision making; that there needs to be relaxation of the controls on capital spending; and that there needs to be a move away from funding capital projects through private finance initiatives and public-private partnerships.

We would be happy to answer as many questions as members have on those or other issues on which you think we will be able to comment.

The Deputy Convener: If no other witness wishes to speak, I invite Tricia Marwick to ask the first question.

Tricia Marwick (Mid Scotland and Fife) (SNP): Good afternoon. You say in your evidence that you are concerned about the cost of PPP schemes. You acknowledge that there has been massive underinvestment in local government for many years. You also say that the present mechanisms should be changed and that you would like changes to be made to the European investment fund, for example, for borrowing. Will you expand on that?

Grahame Smith: The issues around the European investment fund were developed by Unison. My colleagues might wish to comment on work that their unions have done and we will be happy to provide the committee with more detailed evidence on the work that has been done. As I understand it, the European investment fund is a financial institution at European Union level. It enables borrowing for infrastructure purposes. That borrowing does not count against national Governments' borrowing accountancy requirements. Adjustments to the rules that govern the EIF are necessary to allow local authorities to use the fund to finance capital investment projects. We could provide further details on the work that has been done in that area.

Ian McKay (Scottish Trades Union Congress): Perhaps I could add something on PPP, which we mentioned in our submission. There are much larger issues to do with PPP. We do not want to begin here an ideological debate about private versus public finance, but one point is relevant to the committee's discussion. We are concerned not only about the effect that PPP contracts have on revenue budgets, but about their effect on hypothecated funding generally.

The financial effect of PPP contracts is that they tie councils into, for example, 25-year contracts in which the normal rules and mechanisms of best value do not apply to what often is a large part of a council's expenditure. That means in essence that councils are electing to hypothecate part of their own budget expenditure for that period. We view that as problematic, not just because of an

ideological conviction about private capital, but because of the way in which it affects councils' decision-making processes for a long time. I make that point without getting into the matter of control of the services that are part of the contract.

Tricia Marwick: You might be interested to know that last week we asked those questions of the Executive unit that deals with PPP. We asked about figures for the next 25 years and the impact on revenue budgets. When we get that information it will inform the debate.

Your submission talks about the general government financial deficit as a better mechanism for raising capital finance, because that would have no impact on the public sector borrowing requirement. Do you know of any other countries that use the GGFD? What are its advantages?

Grahame Smith: I could not name them, but I believe that the GGFD is commonly used in countries of the European Union. Its use involves accounting conventions. The clear advantage of that calculation is that it ensures that borrowing for investment purposes is not included in borrowing requirement figures. The economic impact of that feeds through to Government calculations on inflation and interest rates. That means of considering the economic impact that borrowing for investment achieves is more sensible than current arrangements.

Such a change would not have significant economic impacts; it would not lead to an almighty hike in interest rates or to changing exchange rates. The arrangement is more technical and has not been introduced more for political reasons than for economic reasons.

Mr Keith Harding (Mid Scotland and Fife) (Con): Your submission refers to agreements between central Government and local authorities on

"joint policy and expenditure priorities".

Will you explain the practical difference between such agreements and ring-fenced funding?

Ian McKay: In some cases, there will be little difference between the ways in which the mechanisms operate, but we are trying to make a point with the word "joint". One should be able to establish a mechanism—at individual council level or collectively through the Convention of Scottish Local Authorities—that allows a joint set of priorities and a joint agreement to be reached about ring fencing or hypothecation of expenditure.

The problem is that—perfectly understandably—central Government has political priorities and is concerned that moneys that it makes available for expenditure on those priorities might not find their

way to them, which is why so much hypothecation exists. COSLA has claimed that about 33 per cent of funding is ring-fenced and the Minister for Finance and Local Government has retorted that the figure is 8 per cent or 10 per cent. Whatever the level, hypothecation has increased. We suggest that if the political groups got together, they could find a better mechanism for working out such arrangements because, in the final analysis, hypothecation concerns policy and is not merely a mechanism. It concerns the political direction in which the two levels of government wish to travel.

Mr Harding: Would not those agreements still require each council to tailor its spending priorities to those of the Government of the day? Would not they also involve central Government in planning services in individual local authorities? What difference would the agreements make to hypothecation or ring fencing?

Ian McKay: Inevitably, there are budgets for and agreements about expenditure at different levels of government. The same can be said of the block grant and the relationship between the UK Government and the Scottish Parliament. We would like a process that involved more negotiation between the two levels of government, rather than a process that was dictated or—how can one put it?—if not abused, then misappropriated by one or other level.

Although Keith Harding did not ask about this, I add that it might be more helpful to all who are involved in the process if another mechanism existed for monitoring and scrutinising expenditure. I have read Professor Midwinter's excellent submissions to the committee, which show how complicated the local authority funding process has become. A better system of monitoring would be helpful, because it might encourage between the levels of government more trust that money for a certain matter was being spent on that matter.

Mr Harding: Do you perceive that there will be any problems in establishing those agreements if the ruling group of the council is of a different political hue from the national Government?

Ian McKay: I imagine that people who belong to different political parties do occasionally fall out. My union is not politically affiliated, but I understand that that does happen from time to time. Obviously there would be differences but we would be encouraged by the operation of mechanisms that brought apparent opposites together and found agreement in areas such as that. I refer to mechanisms such as the tripartite mechanism in Europe and the National Assembly for Wales's joint working between employers, unions and the Government. That kind of working would encourage us to believe that, although there are problems, they can be overcome if the

mechanisms are transparent and open.

14:30

Mr Harding: Is not there a tripartite agreement between the unions, COSLA and the Government to determine national policies now?

Ian McKay: The only recent instance that I remember in which that mechanism operated formally was in the education sector—my own sector—during the discussions on what became known as the McCrone agreement. In that case, the set-up was formal. However, even in that case, the discussions were, in effect, informal and were put into action as almost the last act of the old Scottish Joint Negotiating Council arrangements between employers and trade unions. I do not think that we have had a formal mechanism. However, if you peruse STUC literature that has been published over the past few years, you will find that the trade unions have advocated such a mechanism for some time.

Grahame Smith: We have a mechanism called the local government forum, which brings together the Executive, COSLA, the trade unions and the Local Government Committee. However, that is a consultative mechanism and we view it as a means through which the trade unions in Scotland can influence policy. It is not a joint decision-making body. It does not make policy; it involves dialogue about policy.

The Deputy Convener: Your written evidence says that we should retain the council tax, but with modifications. It also says that the business rate should be passed back to local control. What is the STUC's view about the implications, if any, of the business rate being returned to local control?

Grahame Smith: The most significant implication is that that would redress the imbalance that exists between local and national funding of local authorities. The issue is political rather than economic. We are not aware of evidence that the business rate should be kept as it is and not returned to local government, although I know that our colleagues in the business community and the Confederation of British Industry believe that it should be kept as it is. We are not aware of any economic evidence that justifies their concerns that local authorities would somehow act irresponsibly by hiking up the business rate. We must bear it in mind that local authorities recognise the possible impact of that on economic activity and employment levels. There is no reason why they would act in such a way.

Perhaps returning the business rate to local control would improve the relationship between the local business community and local authorities, which have not enjoyed a good

relationship since the removal of locally set business rates. I believe that there are significant economic factors; the business community's concerns are understandable, but we do not share them.

There might be a need for some adjustments and for arrangements that would ensure that if the business rate were returned to local control, areas that did not have great potential for raising revenue locally were not unnecessarily disadvantaged. However, the general principle of returning business rates to local control should be adopted.

The Deputy Convener: Is there anything in writing that shows that the STUC has considered the implications for business?

Grahame Smith: We do not have detailed papers, but we have considered the issue for many years. We opposed the removal of local authorities' right to set business rates and we have consistently considered the issue since then. Our view has not changed. Studies are mentioned in the committee's evidence. We do not believe that there are economic consequences to be concerned about.

The Deputy Convener: If central Government cannot be persuaded to return the business rate to local control, what alternative would the STUC favour to bring the balance between central and local funding closer to 50:50?

Grahame Smith: We advocated that balance in our submission and mentioned the need to consider giving local authorities greater powers to raise other forms of income. Those forms should not be seen as replacements for the council tax, which should be retained because it broadly meets important criteria for local taxation. We do not advocate the removal of chunks of local authority services to central Government as a means of redressing the balance.

The Deputy Convener: So your suggestions are additional to, rather than replacements for, council tax and the return of business rates to local government control.

Grahame Smith: The business rate should be returned to local government and consideration should be given to local authorities' having powers to raise other forms of income locally.

Iain Smith (North-East Fife) (LD): Your submission refers to alternatives to the council tax, but you regard those as additional sources of revenue for local government—they would not replace any of the existing sources.

Grahame Smith: They would be additional sources of revenue.

Iain Smith: Those sources would not, therefore,

be intended to replace part of Government grants, which would result in a subsequent reduction in national taxation.

Grahame Smith: We have not calculated the impacts. The submission says that the additional sources of revenue are not designed to replace elements of local taxation.

Iain Smith: There is one glaring omission—local income tax—from your list of alternatives. Has the STUC examined local income tax as an option?

Grahame Smith: We have examined and dismissed local income tax as an inappropriate option for raising income locally. Obviously, local income tax is a progressive tax, so members would therefore probably expect us to support it. However, we examined the ease of its administration and enforcement and its stability and we do not believe that the tax is appropriate for raising resources locally. My colleagues might want to comment further on that, but we have considered the tax and believe that it is not appropriate.

Ian McKay: The STUC has not taken into account Arthur Midwinter's paper, but his arguments on local income tax are well made.

The paper also points the committee towards considering whether it is feasible to have three levels of income tax—at local government, Scottish Parliament and UK levels. I found those arguments persuasive; they point in the same direction as some of the discussions in the STUC.

Iain Smith: It would be fair to say that other European countries operate different levels of income tax, right down to the level of borough councils and relatively small authorities. Why should it work in Sweden and not in Scotland?

Ian McKay: The committee is well aware that in different European countries there are different forms of local government and regional assemblies and that different forms of election and taxation go with them. There are many differences throughout Europe if you care to look for them. What Professor Midwinter does, which I found convincing, is move us on from the position in which we are now—after all, it is a position of at least 20 years' making. Local income tax does not offer an alternative that would take us forward, although it appears to be progressive and useful. We must start from where we are now in terms of the effect on the system. There are many differences out there—it depends which ones you want to focus on.

Iain Smith: I am interested in the logic behind the hotel tax to which you referred. You mentioned events such as Edinburgh's hogmanay and the open golf championships at St Andrews, which obviously cost local authorities quite a bit because

the authorities must provide additional services without such events providing any direct income. Why pick on hotels rather than on other beneficiaries such as shops, restaurants, bars and other visitor attractions?

Grahame Smith: Our submission raises several possibilities, but they are not exclusive—perhaps the wording could have been better. We see such a tax not as a replacement for, but as a supplement to, council tax. We acknowledge that all forms of taxation have perceived disadvantages. Nobody likes to pay taxes but we all like to benefit from the services for which taxes pay. We make suggestions that would create a power to tax, rather than a requirement to tax. We believe that there should be flexibility to allow local authorities to raise income.

Tricia Marwick: I want to go back to the question about local income tax, which was posed by Iain Smith. You seem to be saying that we must address the issue by considering current local government finance. In effect, you are saying that all that we can do is think around the edges, rather than take a radical approach to local government finance. That jars with your more radical suggestions in relation to PPP and your commitment to the general government financial deficit. You seem to be radical in your consideration of alternative methods of managing capital, yet you accept the current situation in respect of local government finance in Scotland and suggest only that we tinker around the edges.

Ian McKay: That is not the impression that I mean to give. We need to think about radical solutions. The other submissions to the committee include some interesting suggestions. I was trying to suggest that there has been an extended removal from local government of the power to pay for itself over the last 20 years. It has been a long drawn-out process that has used many different mechanisms to reach the current situation.

In order to begin to reverse that process, the policies of local government, the Scottish Parliament and the UK Parliament would need to be co-ordinated. Although I do not want continually to return to Professor Midwinter's evidence, his points about the way in which council tax benefit works illustrate how interwoven the different forms of finance are, which is the point that I am trying to get at. If we are to have such radical solutions, a much broader approach needs to be taken. We need to take account of all the different ways in which local government finance is generated. In our view, a local income tax will not of itself be the panacea. Other ways of making a radical difference should be considered.

14:45

Mr Harding: The concluding paragraph of your written submission states:

"The use of a basket of local taxation measures should be explored further as options to be used by local authorities."

In response to Sylvia Jackson, you said that that should be in addition to council tax. Is that correct?

Grahame Smith: That is correct.

Mr Harding: Those who have given evidence to the committee have come up with various ideas, but the vast majority have also said that overall taxation should not be increased. Is your suggestion realistic? Would any political party deliver on it? More taxation is hardly a vote winner.

Grahame Smith: I cannot speak on behalf of any political party. Whether the suggestion is a vote winner is for political parties to determine. The people whom we represent, the people who work in local government and the people who use the services want good-quality services. We have no evidence to hand to suggest that people are not willing to pay the price for good-quality local government services. We believe that, if that requires taxes—which would need to be levied fairly, taking account of ability to pay and of the other factors that govern taxation—it would still be popular both with the people whom we represent and with the population more generally. People want good-quality services, which they recognise must be paid for.

Mr Harding: The majority of people think that they are already paying for local government services through their business rates, income tax and council tax.

Grahame Smith: They also have a view that the services that they pay for are insufficient and inadequate. I believe that people would be willing to pay more if it could be demonstrated that their doing so would provide higher-quality services.

The Deputy Convener: Does the STUC advocate referenda to ascertain whether different council areas want different approaches?

Grahame Smith: We have not discussed that.

The Deputy Convener: You offered to ask Unison to provide the committee with more information on the European investment fund. We are interested in how the EIF criteria might be altered to make the situation better.

Grahame Smith: I believe that Unison was doing work on that, although I am not 100 per cent sure. I will endeavour to determine whether that is the case. If we can provide the committee with further evidence, we would be happy to do so.

The Deputy Convener: If there are no more questions and if our witnesses have nothing further to add, let me thank them very much for coming along. Thank you.

Before I introduce the various witnesses from COSLA, I should report to the committee that Professor Arthur Midwinter cannot be with us today because he is still ill. We wish him a speedy recovery and hope that we will be able to see him soon.

I welcome to the committee our witnesses from COSLA: Councillor John Pentland is the finance spokesperson; Councillor Pat Watters is the president; Councillor Drew Edward is the chair of the capital task group; Norie Williamson is the director of finance; and Brenda Campbell is the financial policy officer.

We still have one or two questions about the evidence from our first session with COSLA, on 6 November, and I hope that the witnesses will not mind if we revisit some of those issues. Although you are submitting some written information that will make the evidence more useful, we feel that the questions are so important that we must revisit them. Is that all right?

Councillor Pat Watters (Convention of Scottish Local Authorities): That is fine.

The Deputy Convener: Perhaps we can begin with those questions before we hear about and discuss the later part of your report. How would COSLA ensure that the theme groups that it envisages as part of its scheme concentrate on the big issues and do not degenerate into talking shops?

Norie Williamson (Convention of Scottish Local Authorities): That issue is very much related to the overall nature of the planning framework. Although the theme groups are part of that framework, they are overseen by the joint planning group at officer level and by the strategic group at a political level. Both supervisory groups will determine work priorities for the theme groups and will oversee how they work.

Although our evidence identifies the theme groups as officer groups, a political structure outwith that arrangement would be helpful, particularly in the spending review process, where it would allow early discussions on the priorities for various service areas.

Tricia Marwick: In paragraph 20 on page 23 of your submission, you say that the work of the theme groups would

"provide a context in which councils ... would develop their own ... plans for that theme".

How would the proposals affect the corporate and financial planning systems of councils in Scotland?

Norie Williamson: We have included that issue in the development of our evidence, which has been put together on the back of the announcement of three-year settlements for individual councils. Those settlements have allowed councils to develop longer-term and, in particular, strategic planning. The theme groups can be structured to fit into that framework, now that it is in place.

We recognise that the delivery of services locally will vary because of the diversity of local councils. Although we identified a need for theme groups nationally, how they are delivered locally might be a different issue. It is important that we discuss strategic issues at a national level, which takes us back to Sylvia Jackson's question about keeping issues at a strategic level and giving local authorities the flexibility to deliver on strategic issues to best suit their local needs.

Tricia Marwick: You have partly answered my next question, which is to ask how COSLA's approach would accommodate differences in political control at a local level from that at a national level. Do you envisage that every council, irrespective of political control, would have to develop their plans around the themes determined by a strategic policy forum?

Councillor Watters: It would be difficult for us to accept such a development in a national policy forum. COSLA is a framework for local government, not a mandatory body, and local authorities are partner organisations in it. If a local authority decides to take up a particular theme, COSLA cannot—and would not want to—do anything to prevent it. We hope for consensus, but local authorities are individuals.

Iain Smith: Paragraph 22 on page 24 of your submission suggests that through concentrating on priorities and strategic themes, methods of allocating new funding will be considered. Does that mean that the theme groups will primarily consider new funding, or will they address the main funding? Will the main funding be left as it is?

Norie Williamson: We were considering the bigger issues in that section. We mentioned new funding and perhaps there is a direct link from that to ring fencing additional resources. However, we hope that the spending review will allow for a much broader focus. At the moment, after the resources that are allocated to local government have been identified, the amount for new initiatives is top-sliced from that sum. The remaining sum is for core services. As part of the process, we want to turn that arrangement on its head. We want the resources that are necessary to deliver core services effectively to be identified first and what is left over to be used to develop new initiatives.

Iain Smith: I am still not entirely clear about how you want funding for core services to be allocated. Would it be done in a similar way to the existing grant-aided expenditure process, which takes account of issues such as population and age structure? Would the top-sliced thematic part be considered in addition to that?

Norie Williamson: A number of concepts are at play. Our submission advocates a simplification of the grant distribution arrangements. A lot of work must be done on that quickly, but the emphasis must be on the grant distribution system delivering one figure per council. The theme groups would work on that basis to determine outcomes for delivery from the various resources, not, as tends to happen in the GAE process, inputs.

Iain Smith: How can the system for distribution of Government grant be transparent if a single figure is given to each council? How is one to know the make-up of the grant if there is only a single figure?

Norie Williamson: That is a problem with the current system. GAEs tend to be regarded as spending targets, which is not their prime purpose—they are building blocks to arrive at one figure to distribute grant. We want the concept of local outcome agreements to be developed so that the focus is not on inputs, but on outcomes or what is delivered for the public.

The Deputy Convener: I want to follow on from Iain Smith's question. Will the theme groups be concerned with all the money that goes into local government, or just part of the money?

Norie Williamson: All of it.

Mr Harding: Before we move on to another subject, could you outline, in practical terms, what the theme groups would do?

Norie Williamson: I see the initial exercise of the theme groups as feeding into the approaching spending review process. There is a link between the groups at officer level and the theme groups that can develop the issues. Crucially, that needs to feed into the political discussion with ministers and politicians from local authorities. Early in the next calendar year, discussion can take place on the priorities—how they might be adequately resourced and what can be achieved realistically from the available resources.

Mr Harding: How would you draw in councils that are not members of COSLA?

Councillor Watters: We cannot speak for them.

15:00

Mr Harding: You say that deprivation should be addressed by GAEs in the future. Would there be a separate deprivation element within GAE, for

example, or would each GAE block include the deprivation provision that is appropriate for that block?

Norie Williamson: We have advocated a simple core basis for distributing grant. Since reorganisation in 1996, one of the difficulties in the system has been trying to refine the system to cater for the needs of individual local authorities. We have failed to achieve that fully. In recognition of that, we have suggested that issues such as deprivation should be taken out of the core grant distribution. A special allowance or safety valve should then be incorporated in the system. We have identified deprivation, urbanity and rurality as the issues to move forward. That would give a transparent basis for identifying the spending needs of individual councils, the Executive's commitment to addressing such issues as deprivation and social inclusion and the resources for tackling the causes as well as the symptoms.

Mr Harding: Do you envisage that each council would receive a share of the deprivation GAE block based on its population-weighted score on the deprivation index or would the deprivation index be a component of the primary GAE indicators?

Norie Williamson: We have still to consider that matter. As we say in our submission, a lot of work needs to be done on the amount that goes into the deprivation allowance and how that allowance is distributed to individual councils. Our submission also recognises that there are issues of rural deprivation as well as urban deprivation.

Mr Harding: Would it be possible for you to summarise for the committee—perhaps in writing—your proposals for the treatment of deprivation in GAEs and the grant distribution system?

Norie Williamson: As to the distribution?

Mr Harding: Yes.

Norie Williamson: I think that it is too early in the day to do that.

Mr Harding: Thank you.

The Deputy Convener: You seem to be talking about two things. You talk about deprivation being taken into account with the GAEs. You also mention a possible safety valve, which would have some reference to rural deprivation. Have I understood that correctly?

Norie Williamson: We are suggesting that the deprivation elements in the GAE—if I can call them that—are taken out so that they can be treated as a special allowance.

Tricia Marwick: Has COSLA undertaken any research into the development of non-expenditure-based GAE assessments? If so, how does COSLA

envisage that those assessments might be produced?

Norie Williamson: We have acknowledged that the problem with carrying out reviews of GAE distribution is the available data. That has been particularly true since reorganisation. The lack of data has caused problems and inertia within the current system. That goes to the root of non-expenditure-based GAEs. We need robust indicators. At the moment, a handful of indicators drive 75 to 80 per cent of the money. We need to focus on what we are doing. The smaller indicators are causing difficulties at the margins. However, we can consider things at a national level. As I said, smaller indicators are causing difficulties at the margins, but they may not be at local level. Before we make any moves, there should be a sensitivity analysis of the impact of the changes on individual councils.

Tricia Marwick: You are seeking a joint review of the grant distribution arrangements to rationalise and simplify the current system. Does the joint review involve COSLA and the Scottish Executive?

Norie Williamson: Yes.

Tricia Marwick: What should the review investigate? What would you like the review's outcome to be, if you do not want to prejudice it?

Norie Williamson: I do not want to prejudge the review, but we have advocated that there should at least be consideration of abandoning secondary indicators and expenditure-based assessments and an attempt to rationalise a number of small indicators that distribute small sums of money. We should keep those principles in mind as part of the review.

Tricia Marwick: Have you made representations to the Executive on a joint review? Has there been a response?

Norie Williamson: We have not received a response. We made representations, copied our full evidence to the Executive and indicated that we want to discuss the issue with it in full. I am aware that the committee's review is on-going, but we are keen that work should start early.

The Deputy Convener: How can we improve data? You said that one difficulty is the quality of data. You also mentioned robust indicators. What work is or ought to be going on in that area?

Norie Williamson: Over the years, we have tried to improve data on school pupil numbers, for example, which drive a substantial proportion of the money. We have tried to improve the data so that they are fairly robust. One difficulty relates to expenditure-based data. The system is technical and subject to statistical checks and must be founded on robust financial data from local

authorities.

Since reorganisation in 1996, however, authorities have been diverse and have dealt with service or theme-based provision in different ways. The consistency of data from local authorities is therefore not as robust as perhaps it should be. We want to take that issue forward with the Chartered Institute of Public Finance and Accountancy, which issues guidance to councils on classifying data and on how data can be improved and brought more up to date to recognise service provision on the ground.

The Deputy Convener: On deprivation data, how can we ensure that you will identify small pockets of deprivation that are masked by more affluent areas?

Norie Williamson: I do not really have an answer to that. We would want to find out how refined the index of deprivation is that has been developed to address such issues.

The Deputy Convener: Has COSLA undertaken any research into the development of non-expenditure-based GAE assessments? If so, how do you envisage that those assessments might be produced?

Norie Williamson: Over the years, we have tried to tackle expenditure-based GAEs, if I can turn your question on its head—and if I understand it correctly. Planning GAE, for example, is distributed on the basis of expenditure by individual councils. We recognise the anomalous situation prior to and since reorganisation and have tried to address such issues within the current system, but we have not come up with any satisfactory answers. Perhaps that lends weight to the fact that we need a fundamental review of the current system to concentrate on the key indicators that drive most money in the system.

The Deputy Convener: Thank you for bearing with us in going over those questions from last week. That has been most helpful. We will now go on to the second part of your submission. I invite John Pentland to say a few words.

Councillor John Pentland (Convention of Scottish Local Authorities): I thank the committee for giving us the opportunity to explain the written evidence that we submitted to you. This time, we will focus on local taxation and capital. We acknowledge receipt of the written questions following the previous meeting. We are working on our responses. We hope to have them completed and sent to you as soon as possible.

Members will see from our submission that we have given a detailed factual critique of possible local domestic taxes and how they measure against the basic principles that should underpin a tax system. It is important to recognise that

change should be considered only following full research and should not be taken lightly.

After we did the critique, our conclusion was that the case for change has not been made. We recognise that the council tax must be refined and kept up to date so that it does not lose its credibility. It is generally assumed that band D is the average—relativity is structured around that—but bands A and B account for more than half the properties. More sensitive banding arrangements must be introduced, especially to recognise people on lower incomes. We welcome the committee's decision to commission independent research on that issue.

The values that are in use date back to April 1991. Those are long out of date. If they are not updated, they will put at risk the system's credibility. A revaluation will take place in England in 2005, to be implemented by 2007. In Wales, consideration is being given to a revaluation to take effect from 2004. We need to be in a similar position. In Wales, there is a permissive power to charge full council tax on second homes. Again, we need to be in a similar position.

Drew Edward will make introductory comments on capital.

Councillor Drew Edward (Convention of Scottish Local Authorities): I think that everyone recognises the investment needs of the infrastructure and assets of the nation. Those are tabulated on page 189 of our submission.

The Government wants to stimulate investment in capital assets. Local authorities are committed to effecting that investment. Investment must be made in a variety of assets and measures must be spend-to-save ones, so that we make better use of resources in the longer term.

The current system tends to restrict investment rather than facilitate it. It tends to be rules based and over-complicated. It appears to have developed as a cycle of increasing complication—as local government has got round some rules, central Government has applied other rules to try obliquely to influence local government. The system requires to be simplified. We would like the existing controls to be abolished and replaced by a system of self-regulation or professionally regulated safeguards. We want to move from central control to local safeguards.

Recognising the interrelationship of services, the abolition of controls should apply to the non-housing capital as well as to the housing capital. Local government is pushing to integrate its work across services and we believe that separating housing from the other aspects of the social inclusion agenda is a mistake. Overall, the system needs to be supported by sustained and sufficient revenue funding.

We feel strongly about the set-aside arrangement for housing. The arrangement for general capital set-aside has been resolved, but we believe that the continuation of the arrangement for housing set-aside—at 75 per cent—is an anomaly that needs to be abolished with immediate effect, as it takes a huge amount of capital out of the investment stream. There are, or have been historically, problems with over-indebtedness. Current council housing stock values and the residual debts would be better managed by a simple system of self-regulation and professional controls based on a prudential framework for capital investment rather than simply on the statement that debts must be repaid.

We recently received a letter from the Minister for Social Justice on housing set-aside. Effectively, councils are being forced to opt for stock transfer. A financial control is being used obliquely to drive councils in a particular direction. The Executive is trying to impose a one-size-fits-all model and is failing to recognise the diversity of local government in Scotland. There needs to be a focus on outcomes, rather than simply on inputs.

15:15

Councillor Watters: The housing set-aside is a prime example of the restrictions that we are talking about. In some areas, new housing partnerships are common sense and will take housing forward on a realistic basis. In others, the local elected members would have to be put in straitjackets before they would agree to support them. Authorities are tackling the same problem, but in different ways. Solutions need to be different, because councils are different organisations. What is right for one is not always right for another. As Drew Edward said, one size does not fit all. We must keep that in mind.

Besides the detailed technical changes that need to be made to financial arrangements, there is a basic need to accept that there should be an effective partnership between the Executive and local authorities and to recognise that local government has an essential role to play in delivering services and priorities in our communities.

Like our MSP colleagues, local councillors are elected. Two and a half years ago, MSPs and councillors were elected to represent the people of Scotland. When the people of Scotland put their crosses on their ballot papers, they did not say that their MSP had more knowledge than their local councillor. They elected us jointly to run Scotland for their benefit. They wanted to ensure that things were done and managed properly. We must recognise that we need a flexible approach to dealing with each other, to ensure best delivery of services to local communities. If I am president

of COSLA much longer, the committee will hear me say many times that councillors and MSPs are here for one reason only: to ensure proper delivery of services to communities in Scotland.

The Executive needs local government to deliver its priorities. Local government needs to be an equal partner with the Executive and to have parity of esteem with it. We have been saying that for some time.

The Deputy Convener: I have a question about domestic taxes. What research did COSLA undertake when drawing up its critique of the current system?

Councillor Pentland: Only limited time was available to progress that work. Within that time, a factual critique was prepared, founded on previous research by the Layfield committee and by the tax experts and assessors who were members of the local tax working group. The critique that is before the committee is professional, sound and robust.

Mr Harding: In reviewing local domestic taxes, were you seeking a significant supplement to the council tax or an alternative to the council tax?

Councillor Watters: We seek a supplement to the council tax, rather than an alternative to it. When analysing the effectiveness of local taxation, we consider ability to pay, how easy a tax is to understand, its administrative effects and how easy it is to collect, the question of impartiality and whether it is easy to avoid paying a tax. On those criteria, council tax probably comes out a little way ahead of some other forms of taxation. If we are to have a basket of taxation, the fundamental tax should be the council tax. Anything else should be additional to that.

Mr Harding: When you were examining local tax systems, did you look at those of other countries?

Councillor Pentland: We would love to do so. Different countries have different political set-ups and different social inclusion policies. It would be difficult to compare like with like. However, we will be seeking information from countries that are in a similar position to ours.

Mr Harding: Did you look at the local income tax systems that operate in the Scandinavian countries, for example, or at the land value tax that operates in several countries?

Councillor Watters: We are aware of the differences. The simple answer to your question is no—we did not do any detailed investigations into other countries' local tax systems. However, we are aware of the situation in the Scandinavian countries in particular. We are also aware that high taxation in Scandinavia goes along with a high delivery of services. We would need more time and resources to carry out more detailed

studies. Perhaps Norie Williamson would like to add something.

Norie Williamson: The COSLA president, Councillor Watters, has covered most of the matter. We took into account, where appropriate, research into such issues as land value tax, which applies in parts of the United States. However, we did not have the time or resources for fundamental, detailed research into the core of the taxation issue.

Iain Smith: I have a question about your basic principles of local taxation. I can understand why it is appropriate to look at the accountability of local government as a whole and the local tax take as a whole. However, in the paragraph on accountability on page 124 of your written submission, you seem to imply that the judgment of whether a local tax is appropriate from an accountability point of view relates to the proportion of the tax that is collected. Is that correct?

Norie Williamson: I will open on this question and then pass it to the politicians, so that they can comment on the wider issues.

For the purposes of the factual critique, we took a fairly narrow financial view of accountability. Members can see on page 143 of our report how we tried to explain more than 20 pages of narrative by the use of a simple table, which perhaps explains why the accountability row on the table has question marks right across it. However, perhaps that is more a reflection of the balance of funding issue than of the accountability issue.

Councillor Edward: The answer depends on what form of accountability you are talking about. Accountability can be described in a variety of ways. When we, as councillors, stand on a doorstep and a local resident challenges us about the level of council tax and how we are spending it, we feel sharply accountable. The proportion that is raised locally sharpens that accountability. If 80 per cent of a tax is funded by central Government, the accountability of local government is reduced. However, if the tax is 50 per cent funded by local collection, local people can see a direct relationship between what they pay in council tax and the services that they get, which makes us much more accountable as elected members.

Iain Smith: My point is that that is the case for any form of taxation. The proportion that you collect could apply to any of the forms of taxation that you refer to. In that sense, they can all be equally accountable. Surely the important aspect of the accountability of a tax is how transparent it is to the local elector that the level of council tax—or local income tax or sales tax—affects the level of service that they get.

Councillor Edward: Yes.

Councillor Watters: Again, that links to the issue of some sort of partnership and trust in how we use our finances.

The Deputy Convener: I have a question about the tourist tax, which you mentioned along with council tax and local income tax. Do you regard a tourist tax as a top-up tax or as a significant element of domestic taxes?

Councillor Watters: This may not be the right time to be talking about a tourist tax. After what the tourism industry has faced over the past year, first with foot-and-mouth and then with the terrible events in America in September and the war in Afghanistan, it needs as much help as it can get. When we drew up our submission, we said that there were various options. A tourist tax might be one of them, but it is not one that I would propose at the moment.

Councillor Edward: The other aspect of a tourist tax is that, as with all taxation, we have to consider the consequences and the adverse effects. Congestion charging or any other form of charge may change people's behaviour. A tourist tax may change it in a way that we would not want.

The Deputy Convener: Are you saying that there should be flexibility in how the taxation is arrived at, depending on circumstances?

Councillor Edward: We have to consider all the implications of a tax, not simply how much it can raise.

The Deputy Convener: Will that differ from council area to council area?

Councillor Edward: It may differ at the margins, but the fundamental principle of a tax will not differ.

Iain Smith: I have a few questions about the local income tax section of your submission. Could you explain to the committee why COSLA has come to the view that local income tax would not be easily understood and would be easier to evade?

Norie Williamson: Various models for local income tax arrangements have been discussed. The specific model that we have commented on is one that would link in with the national taxation system. Local income tax would not be easily understood because it would create a blur between the national and local taxation systems, affecting the link between council spending and the taxation paid by the public. The issues to do with evasion are very much the same as the difficulties of enforcing the pay-as-you-earn system. Those issues would be emphasised significantly if local income tax was variable across

Scotland. The difficulties in administering local income tax, particularly the issue of people's cross-boundary movement between the places where they work and live, were highlighted during the debates over whether there would be cross-border movement because Scotland could vary income tax by 3p in the pound. That problem would be manifold if the 32 councils were setting variable local income tax rates.

Iain Smith: Like Keith Harding, I am interested in whether you have considered the evidence from countries that already have local income tax. In some Scandinavian countries, three or four different levels of income tax are set by different parts of the process. Are you aware of any particular problems in such countries?

Councillor Watters: I go back to what I said earlier. With more time and some resources we could consider that. We are aware that there are different methods for the delivery of local income tax but we have not carried out detailed studies on that.

Councillor Edward: I have friends who have worked in Scandinavia and were unaware that they were paying a differential local tax. They just saw it as a national tax because it was all collected at the one point. It was not identified as a local tax. Although two or three different taxes may have been involved, those people saw it on their payslip simply as a tax. That is the same with national insurance and income tax—it is just a tax.

Iain Smith: On additional taxes, would you see local income tax as an addition to the council tax or as a substitute for some of the national taxation? Instead of people paying national income tax, they would pay a local income tax that would go directly to local government.

Councillor Pentland: I think that we have already mentioned that we see local income tax as a supplement to the council tax. If people know what they are paying for, they are less reluctant to pay tax. Good-quality services must be provided. If people recognise that they are receiving good-quality services, they will be less reluctant to pay extra tax.

15:30

Tricia Marwick: You say on page 87 of your submission that the present 20:80 share of funding between local and central Government is not right and that you would prefer a 50:50 balance. However, you argue that the main system for collecting money should remain the council tax.

I asked the STUC this question: are not you talking about tinkering at the edges of local government finance? Should not you radically consider local authority expenditure? If the system

is patently not working to the benefit of local authorities and local communities, should we propose to tinker or to take a radical approach? If you took a radical approach, where would you start?

Councillor Edward: I do not know whether the present system is not working, but it could be improved. A more Darwinian approach to developing the system—growing it organically rather than cutting it off at the roots and replanting it—might be more appropriate. We have had one experience of radical change in the taxation system—the poll tax. Such a change can be fraught with difficulties. I prefer gradual change.

Councillor Watters: That is right. Many authorities are still paying for something that happened in the late 1980s. We do not propose a fundamental shift in how money is brought into local government. We mentioned business rates. Returning them to local government control would be a fundamental change to or a shift back in arrangements. We do not consider that not to be radical, but Drew Edward is right: we propose improvement to the present arrangements, rather than a revolution.

Tricia Marwick: Councillor Watters referred to non-domestic rates. COSLA's submission acknowledges that the business sector is concerned about the return of non-domestic rates to local control. Has COSLA attempted to allay the business community's concerns and fears?

Brenda Campbell (Convention of Scottish Local Authorities): When the local tax task group initially met, it was acknowledged that COSLA and the business sector would have to meet to discuss not only non-domestic rates, but other proposals in our submission, such as business improvement districts. Unfortunately, because of the limited time that we had to prepare the evidence, that meeting could not be held before we submitted the evidence. The meeting is still planned and is likely to happen in the next calendar year.

However, in section 7 of part 9 of our evidence, we address engagement of the business sector and consider a Department of the Environment, Transport and the Regions study on principles of engagement. We will consider that paper further with the business sector. We have prepared a background paper on local government services as a starter paper for discussion with the business sector. COSLA accepts that more partnership working with the business sector is needed.

That links to non-domestic rates. We lost the link with the business sector when business rates were removed from local control. If we advocate that, in theory, the non-domestic rate should be returned to local control, we should expand on that.

Mr Harding: In your paper you outline two possible approaches to the full or partial return of non-domestic rates to local authority control, as well as an income-sharing option. Which of those three options would COSLA prefer?

Norie Williamson: As Brenda Campbell explained, there has been a break in the link between the level of spend of councils and the level of rates paid by the business sector. In principle, we advocate the full return of control over business rates to local authorities.

However, we recognise that there is a lot of work to be done to fulfil that principle and to make that option work on the ground. We fully recognise the views not only of the business sector but of the Government on the benefits that have been derived from having a national business rate. We must discuss those views with business and the Scottish Executive.

We also recognise the capacity of local authority rate generation, which varies across the country, and the impact that returning business rates to local control would have on the grant distribution arrangements. Although we advocate that option in principle, we recognise that a lot of technical detail requires further consideration.

Mr Harding: When Jack McConnell was Minister for Finance, he was emphatic in the Parliament that the return of business rates to local authority control was not on. Do you have a fallback position that would address the 50:50 accountability issue?

Norie Williamson: I do not think that our fallback position would address that issue, even if business rates were returned to local authority control. That option would take us to a level of local funding of only about 43 per cent, although it is obvious that that would be a substantial help, as it would have a gearing effect on local taxation.

We recognise that we must give the business sector reassurances or guarantees. Our fallback position might be to establish a link to council tax increases or to give local authorities limited discretion to vary the national poundage, either up or down, at the local level. However, that could not have a substantial impact on the pooling arrangements, or a council would have no incentive to vary its rate level locally.

We flagged up another point in our paper. If a council, through its own efforts and those of its partners, were to regenerate the local economy, its ability to keep an element of the increased rate income would be an incentive. However, the circumstance of a council area hitting a recession needs to be addressed further if we are to promote that option.

Mr Harding: Would you not create more

problems than solutions by even contemplating that move?

Norie Williamson: The problems are at the margins and should be set against the benefits of increasing the income-generation capacity of authorities and improving the services that local authorities provide. We fully recognise the problems. We also recognise the need to make all partners aware of those problems and to bring them on board for any changes that are made.

Tricia Marwick: You made the case for the return of non-domestic rates to local control. I understand that the argument of COSLA and local government is that that approach would improve the balance in funding between national and local government. Do you acknowledge the business community's concerns and the reasons for some of those concerns? What can you do to allay those fears, apart from simply speaking to business? What would you say to business? What benefits would returning non-domestic rates to local control—rather than setting a national level—bring to business?

Councillor Watters: There is a fundamental need for democratic accountability. How can we achieve that? We cannot do so other than by discussing the matter and trying to alleviate the fears that members of the business community might have. We have not done that so far, but we hope to start quite soon. It would be difficult to anticipate the reaction to that discussion and I would go into it with an open mind.

What would be the benefits to the business community of having an immediate discussion with local government on the effects of any changes? We already have such discussion with business communities when we are drafting our local budgets and local business communities have appreciated how we have done that. That would not change if we had control of the business rates. We could sit down and discuss realistically any changes that were going to happen and the effects of those changes. We would hear the views of the business community and take into account its anxieties and concerns.

Tricia Marwick: I understand why COSLA thinks that there would be a benefit in the return of non-domestic rates to local control, but what benefits would there be for businesses? I have not heard you make that argument.

Councillor Watters: Businesses would have access to the immediate point of collection. We would discuss our budgets with them not only on an annual basis, but on a three-year basis, as we are able to budget over three years now. Businesses would be able to discuss with us the local impact of the budget, the effect it was having and the improvements they believed would be

necessary to take their business forward. They would have that access and discussion at a local level—at the point of delivery—rather than somewhere outwith the area, where there would be no real knowledge of what was happening locally.

Norie Williamson: There needs to be greater dialogue and understanding. We understand the business sector's needs and businesses understand what local government is about. They readily recognise the benefits of economic regeneration—for example, street cleansing. However, we also need to emphasise to businesses the fact that local authorities are educating the work force for the future and that, therefore, businesses have a substantial interest in the provision of education as well as in the more visible areas of service provision.

Mr Harding: Some of the more progressive councils are entering into such discussions. What advantages will businesses in those areas gain? Those businesses already have that dialogue.

Norie Williamson: It is a matter of developing and promoting. In our paper, we emphasise the need for engagement between businesses and local government—we need to meet the business sector. At a national level, we are trying to set the framework for those local discussions. We readily recognise the fact that the real discussions will take place at a local level, between local businesses and the local council.

The Deputy Convener: Do you still anticipate a procedure of equalisation? Obviously, some councils will collect much more money than others will.

Norie Williamson: That is a big issue. I mentioned the distributional aspects because in the past, when people have talked about the return to local control of non-domestic rates, they have forgotten about the equalisation process whereby the differences are nullified by a change in revenue support grant that is dependent on the non-domestic rates that are delivered locally. We need to recognise the variable capacities of individual councils to generate non-domestic rate income.

The Deputy Convener: Would equalisation have an impact on the dialogue between councils and businesses?

Norie Williamson: It would certainly affect the dialogue. However, that discussion needs to take place at a national level and must get right to the heart of the grant distribution arrangements. In theory, if all councils deliver the same services with the same efficiency and at the same cost, they will charge the same council tax. However, for sound, democratic reasons, it is appropriate that there are variable council taxes throughout

the country. If there were local discussions, they would need to be set in the context of a national framework that we would have to discuss first.

The Deputy Convener: Thank you. That is very useful.

Mr Harding: You said that the ability to pay should be one of the criteria for any form of taxation. How would you assess the ability of a business to pay at local council level?

15:45

Councillor Watters: We would need to approach that sensitively. The days when rising levels of business tax damaged local businesses are long gone. A positive result of local government reorganisation is that we cannot sit back and blame the region or the district when something goes wrong. Problems must be dealt with by the local authority. There is more clarity about how problems can be dealt with.

I do not know whether I have answered your question—I am waffling because I am struggling.

Norie Williamson: There have been a number of studies on the matter. We recognise that businesses are concerned about the impact on their overall expenditure, but studies have indicated that the impact on larger businesses might not be as large as they make it out to be. We have major concerns about the lack of progress on small business rate relief, which was proposed in May 2001. We are still waiting for an announcement on that matter from the Executive.

The Deputy Convener: What would you like the Executive to announce?

Norie Williamson: Having opened up the issue, I will pass it to Brenda Campbell.

Brenda Campbell: We welcomed the consultation and the principle that small business must be supported. It was clear from the consultation that there were a number of technical issues relating to the implementation of the Executive's proposals. We would have welcomed further discussion on that. We have had no further comment to date, yet the proposed implementation date for the proposals is 1 April 2002. We are now approaching December and there is a short lead-in time for changes that might need to be made. Local authorities need time in which to implement changes to their systems. If there is going to be relief for small businesses, we want to open up discussion on that.

The Deputy Convener: Is there anything that the Scottish Executive proposed in the consultation that you would like to change?

Brenda Campbell: COSLA's main concern was that the proposals would be self-financing. We

flagged that up as an issue of concern. We have problems with the definition of a small business. We took issue with the criteria that the Scottish Executive proposed. We do not think it appropriate for a small business to be defined by the number of people it employs as that is a disincentive for businesses to employ people. We have to open up issues such as that and arrive at clear definitions. If criteria are to be used for all local authorities, they have to be set nationally and they have to be mandatory.

The Deputy Convener: What should the Scottish Executive do in relation to the transitional water rates relief scheme?

Councillor Watters: It is difficult for us to comment on the transitional water rates relief scheme. People who live in band A houses are in the lowest income bracket but 76 per cent of them get no relief whatsoever. In the East of Scotland Water and West of Scotland Water areas, probably no relief goes to band A properties and very little to band B properties. It is difficult for us to comment on a system that was brought in purely to offset a large increase in the cost of supplying water in the north of Scotland. The proposal to equalise the payments in a single water authority gives us immense problems because there will be a gradual increase in the cost in the east and the west to offset the massive cost in the north. However, no mechanism is being put in place to address the effect that that will have on low-income earners in the east and the west.

We consider a full rebate scheme to be the answer. I am not saying that that would be easy for the Scottish Executive to address. It might be something for national Government to address. The water industry will affect people's incomes more and more. We must consider how to establish a national rebate scheme that is equal throughout Scotland and takes into account the ability of people to pay for an essential service. Let us not kid ourselves: we can get by without electricity in our houses, but we cannot get by without water in them.

At present, local government guarantees the water industry its payments. We subsidise non-payment of water bills. We have to be sure that we can address that.

Councillor Pentland: Further to that, we were rather disappointed at what the water industry commissioner said last Tuesday. He identified an increase of about 25 per cent. He said that in the morning and we met the minister in the afternoon. The minister was quite receptive to the idea of approaching the United Kingdom Government about relief for those on low income. The meeting was positive. We were glad to hear him say that he would make that approach.

Iain Smith: I will ask about the capital finance issues that you included towards the end of your submission. Will you summarise COSLA's proposals for reform of the local government capital finance system?

Councillor Edward: In essence, the proposal is to change from a rules-based system involving a borrowing consent to a framework that allows local government to fund its capital on a sensible, almost business, basis. That framework would allow a local authority to consider its assets and income and then set in place a set of prudential safeguards that are professionally regulated and based on CIPFA guidance, which would allow it to fund its capital sensibly. In adopting that system, by removing the double count that currently takes place, we would almost immediately release significant capital resources to fund some of the pressing issues in local government. Our proposal is to move away from control mechanisms towards addressing the outcomes and the priorities that the Executive and local government should share.

Iain Smith: COSLA has identified an investment need of approximately £2.8 billion of capital funding. Is the level of capital expenditure increasing or are you managing to keep pace?

Councillor Edward: We are failing to apply the stitch-in-time philosophy. Anyone who visits a local school can see the consequences of lack of maintenance and the resulting increase in repairs and maintenance. The balance between preventive plan maintenance and recurring or arising maintenance is going the wrong way. The balance should be that we plan and maintain our assets rather than repairing them when they fall down. The situation is worsening.

Many believe that the £2.8 billion to which you referred is a significant underestimate because of the pressures that are on councils. Some of the recent studies of educational properties throughout Scotland add weight to that argument.

Iain Smith: Are you not making any impact on the backlog even with the additional capital resources that the Executive has allowed?

Councillor Edward: We are making some impact, but it is not significant. There is a significant need.

Iain Smith: Your report states that the necessary "scale of investment cannot be delivered under current arrangements."

It goes on to say:

"Councils are prepared and are already looking at innovative ways of taking forward investment within current resource constraints."

Will you outline some of the ways in which councils are doing that?

Councillor Edward: The use of PPPs is one way. Covenant schemes and a variety of other means have been considered and used by authorities to get capital resources into their buildings. Councils have also considered a variety of partnership arrangements, such as using trusts for leisure and other services. There are a variety of ways of funding, some of which may not prove in the longer term to be the most efficient ways of providing investment. In 10, 15 or 20 years' time, we may look back on some of them as mistakes. The clear system of borrowing with prudential safeguards through the Public Works Loan Board is one that we know and which is predictable.

Iain Smith: If the Executive agreed to get rid of section 94 constraints and move to a prudential controls-based approach to capital expenditure, how much does COSLA estimate that that would increase the capital available for local authorities?

Councillor Edward: It is difficult to say because the amount would be revenue based. As anyone who takes out a mortgage knows, you cannot borrow money that you will not be able to pay back. Treasury controls would need to monitor that borrowing; we do not have a figure for it. The amount that councils should be able to borrow would be a matter for negotiation between local government, the Executive and the Treasury. Obviously, we would not want to have a huge bang of capital investment that would destabilise the economy.

Iain Smith: Later in your report you rightly state:

"The key fact is that all investment regardless of how it is financed, will 'flow through' to revenue."

Sometimes that is forgotten when people talk about PPP.

If we move to a prudential system, how should the existing capital debt be dealt with? At the moment, capital debt is largely dealt with through the grants system. Would some councils perhaps be disadvantaged by a move to prudential controls?

Councillor Edward: If we were to move to prudential safeguards, longer-term capital planning would also need to be considered. If an authority currently has a debt that will mature over the next 60 years, that would need to be put into the equation. We could not simply look at one year's funding. Things such as 25-year PPP commitments, schools that were built in the 1970s on longer-term funding and the profile of housing debt repayment would all need to be considered. For example, my authority has a clear profile of the housing debt that it has planned for repayment over each of the next 30 years. We would need to look at capital finance in the longer term.

Iain Smith: To some extent, you have highlighted the problem that I was trying to get

at—perhaps I did not express the question particularly well—which was that some authorities have inherited a higher level of debt than others. If we were to move to a prudential system, such authorities might be less able to take advantage of the change. Does COSLA have any proposals to ensure that all councils would start on a level playing field?

Councillor Edward: Part 3 of our written submission deals with the planning arrangements. The factor that you mention would need to be put into that same mechanism. Capital and revenue need to be considered together. PPP, which you gave as an example, drives capital and revenue together and shows where funding is coming from. The working groups that would consider the overall distribution would need to take those factors into account.

Tricia Marwick: Many people refer to PPP as the only game in town. If the local authorities do not embrace PPP, things are simply not replaced or repaired. Your written submission said little about other approaches to capital investment, such as not-for-profit trusts, to manage and develop facilities. Is COSLA looking at not-for-profit trusts?

Councillor Edward: Our submission did not look at not-for-profit trusts, but I know that authorities are considering all the options for capital funding. It is a matter of looking at what is currently available. We feel that the section 94 issue is the priority that needs to be addressed and resolved. Local authorities must be allowed the flexibility of going down the route—be it the PPP route or the trust route or whatever—that seems appropriate to their needs. As I have said on many occasions, local authorities are diverse. They need to have the options available to them along with the safeguards of professional regulation and self-regulation.

Tricia Marwick: If PPP is the only game in town, perhaps COSLA might consider doing research into other alternatives. That research might better inform your member councils.

16:00

Norie Williamson: There is a role for COSLA to play. As Councillor Edward rightly pointed out, what matters is what works at a local level. Individual councils are considering various alternatives and trying to solve the problem of capital investment that is created by the current control mechanism. The freeing up of that control mechanism would help.

COSLA cannot dictate what basis of funding should be implemented at a local level. We can gather in the examples from local authorities and put them out as examples that other councils may

want to consider. COSLA can play a co-ordinating role and help to stimulate investment throughout the country.

Tricia Marwick: How concerned are you about the impact of the revenue funding that will be required to service the PPPs for the next 25 years? Is COSLA addressing that and does it cause you some concern?

Councillor Edward: We said in our paper that all capital finance has to be supported by long-term sustainable revenue funding. The money that is already committed to PPP has to be taken into account in future grant settlements. That is a ring-fenced commitment. There is no way out of that.

Tricia Marwick: Do you worry that somewhere down the line your ability to meet that revenue and still provide the services will need to be protected?

Councillor Edward: We do not have specific concerns about that as a percentage of the total revenue, but it is a factor that must be taken into account in long-term planning. It is an issue that has to be recognised and addressed. It is the same as the funding of the police airwave radio system. That is a 15-year commitment that the Executive must recognise in funding local government.

The Deputy Convener: How far down the road are you with discussing prudential rules? I am thinking about discussions with the Executive and others.

Norie Williamson: At the moment that work is being pursued within a professional group that is being co-ordinated by CIPFA. There is wide representation on that group, including COSLA, the Scottish Executive and directors of finance in Scotland. There is similar representation from bodies in England. That group began its work earlier in 2001. Our expectation is that a consultation document will be launched next month. Usually CIPFA runs a two-month consultation, but given that it is just before Christmas the document will probably be put out to consultation for three months. The benefits of that consultation will be to road-test the potential indicators to see whether they can be delivered and whether they produce the end result as a package. Following that, the working group will reconsider the matter and there may well be a second consultation exercise next summer.

The Deputy Convener: Thank you. I apologise that this has been such a long session. If you have any other information from councils that are exploring innovative forms of financing—you mentioned not-for-profit trusts among other things—we would be happy to consider it.

16:04

Meeting continued in private until 16:15.

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