FINANCE COMMITTEE

AGENDA

22nd Meeting, 2005 (Session 2)

Tuesday 25 October 2005

The Committee will meet at 10.00 am in Committee Room 6 to consider the following agenda items:

1. Cross-cutting Inquiry into Deprivation: The Committee will take evidence from—
   
   Ian Mitchell, Director of Community Regeneration, Communities Scotland; and then from—
   
   David Nicoll, Chief Executive, and Abigail Howard, Head of Policy and Research, Wise Group.

2. Council Tax Abolition and Service Tax Introduction (Scotland) Bill: The Committee will take evidence on the Financial Memorandum from—
   
   Tommy Sheridan, MSP; Gordon Morgan, Scottish Socialist Party Researcher

3. Management of Offenders etc. (Scotland) Bill: The Committee will take evidence on the Supplementary Financial Memorandum from—
   
   Jane Richardson, Head of Parole and Life Sentence Review Division, Scottish Executive

Susan Duffy
Clerk to the Committee
Room T3.60
Extn 85215
The papers for this meeting are:

**Agenda Item 1**

Overview of Written Evidence on Deprivation Inquiry

Evidence submitted from Communities Scotland and the Wise Group

*Evidence to the Deprivation Inquiry* (previously circulated to members in hard copy only; electronic versions available via Scottish Parliament website)

PRIVATE PAPER

**Agenda Item 2**

Written submissions on Council Tax Abolition and Service Tax Introduction (Scotland) Bill from:

- COSLA
- Scottish Executive

*Council Tax Abolition and Service Tax Introduction (Scotland)* Bill and associated documents available online (circulated to members in hard copy only; electronic versions available via Parliament website)

*SPICe Briefing* on Council Tax Abolition and Service Tax Introduction (Scotland) Bill available online

PRIVATE PAPER

**Agenda Item 3**

Management of Offenders etc. (Scotland) Bill Supplementary Financial Memorandum

*Management of Offenders etc.* (Scotland) Bill and associated documents available online (previously circulated to members in hard copy only; electronic versions available via Parliament website)

PRIVATE PAPER
Finance Committee

22\textsuperscript{nd} meeting 2005, Tuesday 25 October 2005

Inquiry into Deprivation Funding – Overview of Written Evidence

Purpose

1. The purpose of this paper is to provide an overview of the evidence received on the Inquiry into Deprivation Funding, to assist the Committee in discussions in forthcoming evidence sessions and in preparing its report. It does not provide a comprehensive overview of the evidence received but rather draws out broad themes. The aim of the paper is to provide a framework via which the Committee can begin to ‘draw out’ their views on utilising some of the key themes which have emerged from the evidence received.

2. The open call for evidence asked four key questions. In addition, specific letters were sent to councils and health boards. These letters contained eight questions for local councils and six for health boards – although there was some overlap. The summary is structured around responses to the specific questions asked, although some responses were of a more general nature. A total of 44 responses were received - 22 from local authorities, 10 from health boards/organisations, and 12 from other organisations. A full list is attached in Appendix 2.

Stephen Herbert and Kate Berry
Senior Research Specialists
Access and Information Directorate (SPICe)
Q1 (councils). How much funding targeted at area deprivation, for what specific purposes, allocated by which methods, do you receive from the Scottish Executive?

Local authorities cited a wide range of funding to tackle deprivation – some listed only a few key funds while others listed a wide range, although it was recognised that not all were allocated on the basis of deprivation measures (see Appendix 2 for examples). Funds commonly cited were the Community Regeneration Fund (CRF) and the Community Voices Fund which are allocated to Community Planning Partnerships on the basis of the Scottish Index of Multiple Deprivation (SIMD). North Lanarkshire Council listed 37 confirmed/forthcoming projects outwith their Aggregate External Finance (AEF) allocation that in some way were aimed at addressing aspects of deprivation. Examples included funding for Anti-Social Behaviour, Childcare Partnerships, Housing Estate Regeneration Fund, Working for Families Fund.

There were a range of Scottish Executive departments that were involved in allocating funding outwith AEF including, Communities Scotland, the Education Department, the Development Department and the Justice Department.

A number of respondents suggested that the Committee should be considering core expenditure streams such as local government and health board funding. Some local authorities considered the treatment of deprivation within the Grant Aided Expenditure (GAE) calculations, although there were different interpretations of the extent to which deprivation factors influenced the overall calculations.

Highland Council stated that deprivation was factored into the GAE for childhood deprivation, deprivation in old age and area wealth. West Lothian Council stated that there is extensive recognition of deprivation within the GAE indicators but there are only two indicators which specifically recognise area deprivation – education and street cleaning. Fife Council suggested that there was more than the 1% of GAE reflecting deprivation as the Committee’s adviser suggested. They stated that a range of GAE calculations depend partly on factors that are specifically incorporated into SIMD as deprivation indicators e.g. number of income support claimants. But it was also important to recognise that the amount of GAE influenced by deprivation significantly exceeds the level of GAE that is allocated on the basis of specific deprivation indicators. North Lanarkshire produced information which suggested that currently over 30% of government funding is either ring fenced or centrally directed.

West Dunbartonshire Council argued that as the GAE indicators are largely population based it suffers as there is a reducing population, but relatively high levels of deprivation, in the West Dunbartonshire area. They argued that there needed to be adjustments made to the distribution formula.

Some responses stated that they received funding from sources other than the Executive e.g. the National Lottery and European funding that impacted on deprivation.

Q2. (Councils and Health Boards) Have you any comments on central allocation mechanisms e.g. are there any variations by Department?

A common recurring theme was the lack of consistency between Executive departments and a need for greater transparency. Clackmannanshire Council, for example, noted that some departments are more prescriptive than others and some require more robust reporting requirements than others. Highland Council noted that different departments favour area or thematic approaches or a combination of both. There is also variation in the extent to which departments consult and engage with local authorities in developing their allocation mechanisms. Comments were made about the lack of a joined up approach within the
Executive. As Fife Council stated, “The onus is on local agencies to manage different funding stream and ensure a joined up approach – there is a need to link up funding mechanisms across different departments.”

The consequences of the inconsistent approach were felt to be an increase in officer time in dealing with bureaucracy, particularly where a bid funding approach was used and the inability to plan effectively where funding was short term or allocated at short notice. The short term nature of some funding was raised as a particular issue. Many responses highlighted that it does not tackle problems which require long term solutions and that permanent posts are easier to fill.

Given some of the limitations expressed about specific funding some local authorities said they would prefer GAE to be the main allocation mechanism for resources allowing local authorities more local discretion and reducing bureaucracy.

South Lanarkshire Council also raised the point that the imposition of national objectives can have a detrimental effect on locally agreed objectives and strategic priorities. It is not always the case that national targets fit with what is required locally. NHS Argyll and Clyde, NHS Grampian and NHS Highland, amongst others noted this point too. South Lanarkshire Council thought that community planning partners are best placed to understand the capacity for investment and channel it and that this should be given more emphasis in funding decisions and management.

NHS Grampian stated that consideration should be given to reflecting in the allocation mechanisms the changing way in which health services are delivered across Scotland. In particular the move towards regional planning, the establishment of managed clinical networks in many areas of clinical care and the implications of the Kerr report, NHS Greater Glasgow said that the Artbuthnott formula was not sensitive to the difference between demand and need. There has been recognition through the unmet needs funds but the resource so far has been allocated to investigate need rather than address unmet need through service provision.

There were varying views of how extensively the SIMD should be used as a basis for allocating funding. Responses in this area overlapped with responses to Q4 and have therefore been considered there.

Q3. (Councils) What internal arrangements do you have in place for allocating funding to address multiple deprivation?

Q1. (Health Boards) What internal mechanisms are you using or do you intend to use in the future to target resources to reduce health inequalities in deprived areas? For example, do use the SIMD?

There were a wide range of responses to this question. A number of councils mentioned a partnership approach to allocating funds involving community planning partners or other partnerships such as regeneration partnerships. Community Planning partners were particularly mentioned in relation to decisions regarding the Community Regeneration Fund. Aberdeen City Council, for example, stated that this process involved dis-aggregation of levels of the CRF to neighbourhood partnerships and networks to develop project proposals for consideration and agreement by the Extended Locality Planning Forum. Scottish Borders Council stated that a new community planning initiative involving a rolling programme of community action plans is being planned.

There a number of comments about how the SIMD was used in the process for allocating funding which again is explored more in Q4 below. While some respondents stated that they did use the SIMD as a basis for identifying areas to be targeted it was clear that a range of
other sources and methods were used too. Other sources of data used included were the census, public health datasets, free school meals data, or in the case of East Renfrewshire Council, the socio-economic profile which they have produced. Renfrewshire Council stated that some elements of their roads and transportation funding is allocated on the basis of accident statistics for which a strong correlation exists with areas of deprivation. NHS Scotland have created health and well being profiles for the whole of Scotland and community profiles for the emerging Community Health partnerships. Highland Council outlined its approach to distributing funding for additional support for learning. They use a budget modelling tool using 4 factors- pupil population, rurality, deprivation and an audit of the numbers of pupils with high individual support needs - to assess need. Some local authorities, such as Falkirk Council on behalf of their Community Planning partnership, have developed their own deprivation analysis.

Greater Glasgow Health Board had utilised deprivation data to develop a model for the allocation of health improvement resources across Community Health Partnerships. In this instance the SIMD was not retained within the model, as other data sources predicted more consistently deprivation factors. The NHS is hindered in targeting resources based on area deprivation because of the demand led nature of much of its activity.

Q4. (councils) The Scottish Index of Multiple Deprivation can be used to target funds to deprived areas. Do you use this index and if so, do you find it a useful tool?

Responses showed variations in use of the Index.

A number of respondents said that they had made use of the SIMD and recognised its value. Dundee City Council felt it was a good measure of deprivation and gives a defensible method of allocation—although they did recognise that it was a measure of area, not individual, deprivation. North Lanarkshire would like it to be used more widely and encourages its update and development. Examples of where it has been used included the targeting of CRF monies. Other examples included Aberdeenshire Education and Recreation Services where SIMD was used during the review of Integrated Schools— it was used when looking at methods of allocating monies received from the Executive and topped up by the Council. Fife Council have use the SIMD as one factor to aid the allocation of resources for Smoking Cessation activities across Fife. Scottish Borders have produced a social atlas from the index but have supplemented this with additional information such as in and out migration and labour market issues. NHS Dumfries and Galloway have used the SIMD to develop health improvement strategies and joint plans with the council. NHS Highland stated that in future it will review its measure of health inequalities which may incorporate SIMD.

One the other hand some respondents have not made further use of the SIMD. Others noted that there were certain limitations and that it was necessary to complement this with a range of other information. Other sources included those mentioned above in response to Q3 and information from further sources, for example, citizen’s panels. NHS Greater Glasgow stated that at the current time SIMD produces a ranking of data zones by deprivation but does not fulfil the requirements of a resource allocation formula by telling us how much more resource an area should get on the basis of relative deprivation.

One of the key recurring themes was the treatment of rural areas under the SIMD. Many local authorities pointed out that the nature of deprivation in their areas was individual and household based, not geographically focussed and as such the SIMD was not particularly relevant. Highland Council, amongst others, thought that there needed to be complementary approaches developed which would recognise the different characteristics of deprivation in rural areas.
A few respondents raised concerns that SIMD was being relied on as evidence of deprivation in general rather than on concentrations of multiple deprivation. A few authorities thought it had been inappropriately used, for example, the City of Edinburgh Council mentioned the use of the Index as a component of the part of the distribution method for funding under the Supporting People programme which, the Council argue, provides services to individuals.

Other more detailed comments on the specific domains used in the Index were made by Highland Council and Argyll and Bute Council.

Q5.(councils) and Q3.(Health Boards) What are the advantages and disadvantages of partnership funding and working in tackling deprivation? What are the most effective models?

It was widely acknowledged that in general partnership working was essential in tackling deprivation. A wide range of advantages and disadvantages were given although some common themes emerged. Advantages cited included:

- Pooling of resources including staff and information resources
- Shared responsibility for outcomes
- Increased investment
- Joint strategic approach to a common aim

Disadvantages cited included:

- Competing priorities of national agencies
- Partners commitment over longer time periods
- Lack of co-terminosity
- Short term nature of funding
- Difficulty reaching consensus
- Longer timescales required for planning and agreeing decisions
- Burden of implementing strategies tended to fall on one agency usually local authorities
- Increasing levels of bureaucracy

NHS Ayrshire and Arran thought that many of the services provided by the NHS do not map directly onto areas of high deprivation which means it is difficult for NHS professionals to align their resources around deprivation areas.

Fewer of the responses outlined what they perceived to be effective models. Some respondents mentioned the need for more long term funding. Other approaches which would be of assistance included moving to streamlined funding for deprivation and streamlined monitoring arrangements. Aberdeen Council felt that it was necessary for co-ordination within the Executive to ensure that there are clear timescales outlining the launch of similar initiatives.

In addition Fife Council also suggested funding that is allocated to the CPP so no one agency carries the financial burden, funding which supports a vision and action plan for local areas, funding based around outcome agreements and problem based activity that is not overly prescriptive. South Lanarkshire Council were supportive of the move towards outcome agreements as they offer a more acceptable model of funding and accountability. However, they also thought that this could place national organisations participating in local partnerships in difficult situations where competing priorities exist.
Q6. (councils) What are the key financial barriers to tackling area based health inequalities and what action have you taken to successfully overcome them?

Q4. (health boards) What are the key financial barriers to tackling area deprivation, and what action have you taken to successfully overcome them?

Q2. (general call). What are the major financial barriers to tackling area deprivation?

A number of financial barriers to tackling area deprivation/area based health inequalities were raised. Frequently mentioned barriers included:

- the fragmentation of funding sources
- the short term nature of funding sources and lack of sustainability
- the disproportionate amount of resource and staff time to service the associated bureaucracy
- the inflexibility of ring fenced funding
- multiple external audit procedures working to different standards
- lack of adequate core funding for management and administration of programmes
- political sensitivities

The Joseph Rowentree Foundation (JRF) recognised the importance of mainstream budgets but highlighted barriers to the effective use of funds such as policy silos, failure to develop joint budgeting agreements and statutory financial obligations. The JRF also noted that in times of budget cuts in local authorities there is a temptation to ‘subsidise’ mainstream services with area regeneration funds. They did note that on the plus side there is evidence that one of the “benefits” of temporary funding is that they give opportunity for leverage.

A few respondents noted the differing financial priorities of partners could sometimes be a barrier. NHS Argyll and Bute suggested that the priorities of the Executive did not always reflect those of local areas. Clackmannanshire, Renfrewshire, Falkirk North and South Lanarkshire Councils all felt that the overall levels of funding are insufficient to make a real impact on reducing inequalities. Some respondents also mentioned the reduction in European funding as a barrier.

The Poverty Alliance thought that funding was best allocated through mainstream funds. The Wise Group stated that too much emphasis on innovation can jeopardise tried and tested programmes such as the intermediate labour market that have a long proven history of success. Similarly Citizens Advice Scotland (CAS) thought that funding should be provided for the core activities of organisations that make a real difference not to new initiatives which often prove ineffective and are replaced by new initiatives.

Q7 (councils), Q5 (health boards), Q4 (general call) How do you ensure that people most affected can effectively be involved in funding decisions?

There was a consensus that appropriate community consultation was an important part of the regeneration process. The Jeeley Piece Club though that community views were essential to complement those of outside professionals. The Poverty Alliance recognised that there was no ‘one size fits all’ approach and this was reflected in the range of approaches cited by respondents.

Methods such as neighbourhood planning, citizen’s panels, community conferences, community councils, youth councils, community representation on partnership boards were highlighted. A few respondents mentioned the draft National Standards for Community Engagement. For example, West Lothian Council stated that they are participating in the pilot for the new standards of community engagement while Argyll and Bute Council have...
used them to establish their approach for involvement in implementation of the ROA. Dundee City Council has established five area regeneration forums which are supported by a council worker and a community worker. NHS Greater Glasgow stated that, in addition to other approaches, there is substantial work underway through the Patient Focus Public Involvement framework and community involvement in community health partnerships.

It was also noted by some that adequate time and money are required to build and sustain effective community engagement. The Poverty Alliance thought that without adequate resources involvement is a burden which weighs more heavily on deprived communities than others. NHS Health Scotland thought that there was scope for investing in the development and evaluation of participatory methods. Ayrshire and Arran Health Board said that greater utilisation of a range of consultative mechanisms across the partnerships will be driven, from the NHS, by the new Scottish Health Council who will have a right of scrutiny over consultation processes around major changes or developments involving the NHS. Midlothian Council welcomed the Community Voices fund and the expectations placed on Community Learning and Development and other practitioners to engage with the recipients of services.

A few responses suggested that service users are primarily concerned with the service they receive not the method of delivery. The Poverty Alliance argued that the majority of citizens, regardless of where they live, simply want to receive quality public services without cumbersome engagement processes. North Ayrshire Council said that they had mixed experiences of involving local communities and that people only want to be consulted where it can make a difference.

Although the Wise Group recognised the importance of community consultation they felt that local concerns should not be the only determinant of investment and that the bigger picture should be taken into account. They suggested that there needed to be buy in from local communities and this should involve some degree of consultation with residents over aspects of the regeneration process, however, this should not extend as far as making decisions about how funding is distributed. They also said there were issues about how representative community consultation tends to be. CAS also said that methods should be used to involve people who would not normally engage in the democratic process. Oxfam too stressed the need for pro-active work with local communities otherwise participation will only be tokenistic.

The JRF stated that the appropriate boundaries for community participation are ones that should be determined by the logic of “natural neighbourhoods” that make sense to local people. In addition to involvement in funding decisions about local regeneration strategies the JRF also suggested that people should be involved in the periodic review of the delivery of mainstream services. This input could be crucial to achieving more effective mainstream services. They stated that the local people want the main mechanism for involvement to be community planning and that above all else two things are expected from this process – a long term systematic approach to participation and a process in which their views genuinely influence decision processes, rather than being treated in a tokenistic way.

Q8 (councils) and Q6 (health boards). Any other general comments to make?

Many of the responses to this question re-iterated points raised in response to earlier questions. In particular there were issues raised about the treatment of rural issues under the SIMD and the need for complementary approaches which focus on individual, and communities of interest, level deprivation. A number of rural authorities also suggested that resource allocation needed to consider the actual costs of service delivery in rural areas.
Again, issues about the number of funds and the need for better co-ordination and streamlining were also mentioned, as was the need for more longer term funding. East Renfrewshire Council said that the process to prepare an ROA to apply for CRF funding is very resource intensive for a fairly limited financial reward.

Some respondents referred to mainstream budgets. Dundee City Council thought that greater account should be taken of levels of deprivation in the distribution of mainstream resources to local authorities. North Ayrshire Council referred to developments in England where the approach via the Single Regeneration Budget and single pot funding appears to address the issue. Renfrewshire Council also noted that around 18% of the English block is allocated on the basis of deprivation compared to less than 2% in Scotland.

South Lanarkshire Council highlighted the need for increased dialogue between national and local agencies and the fit between Closing the Opportunity Gap targets and SIMD should be clarified. They also suggested, as did some other respondents, that there need to be a better balance between people and place approaches.

**Q1 (General Call for evidence) What are the most effective types of funding in tackling area deprivation?**

Respondents highlighted the importance of joined up approaches and need to understand deprived areas in the wider context. The JRF, Poverty Alliance and Scottish Centre for Social Justice (SCSJ) felt there was a need to connect poor neighbourhoods with all kinds of development opportunities in surrounding areas. The SCSJ thought that policy has been traditionally poor at linking need with opportunity and it was unhelpful that economic development is seen as a separate agenda to social inclusion.

Similarly the Wise Group thought there was a need to move away from restrictive area based funding targeted at smaller communities and develop funding streams in line with larger scale economic development strategies and the needs of communities of interest. While they supported regeneration outcome agreements they suggested that the SIMD data zones could actually decrease flexibility and create similar problems to those experienced under SIPs. The Wise group did not disagree with all area based funding they felt this should be at the local authority level rather than smaller areas of deprivation. The City of Edinburgh Council stated that although targeted funds had their value the real drivers of change are national economic trends, major government spending programmes and significant expenditure on infrastructure.

Other specific comments were made about the need for funding to be longer term, sustainable, and less bureaucratic. The Jeeley Piece club also mentioned the need for fair and transparent application, monitoring and review processes and the chance to contribute to continuing dialogue about best practice. The Economic Development Association (Scotland) thought that economic inclusion should be the policy driver for tackling deprivation. They also thought there should be a greater concentration on “what works”.

Oxfam noted that funding streams need to acknowledge and reflect gender differences if they are going to be effective. They noted that housing, transport and health services are all accessed and used in different ways by men and women because of their different experiences and priorities; this includes their experience of poverty. The Equal Opportunities Commission also noted that taking a gender perspective to work with deprived communities can reap significant rewards. They recommended that gender impacts are conducted into spending deprivation and any resultant Scottish Executive initiatives.
Q3. How can the benefits of available funding be maximised?

The Wise Group suggested that funding should favour targeted interventions that are proven to help regenerate areas of deprivation. Funding targeted at the regeneration of wider areas or at communities of interest can be used in a way that impacts upon areas of deprivation. Similarly the JRF suggested that a new recognition is required that multiple deprivation requires a sophisticated strategy which links area, client and strategic policies at neighbourhood, local authority and sub-regional level. While they did not think that area based expenditure is inappropriate they considered that only dictating to CPPs how to spend their catalyst funds reduces the opportunities for local partners to propose innovative solutions.

The JRF suggested that a way forward to foster joined up thinking is to strengthen the capabilities of Community Planning partnerships and to ensure that commitment to community planning is strengthened within the Executive.

The Poverty Alliance stressed the importance of spending by core public services and the need for a joined approach to this through community planning. They suggested that CPPs could track, measure and report progress through ROAs as they are already required to do this anyway.
Appendix 1: List of Organisations submitting written evidence

Local Authorities

Aberdeen City Council
Aberdeenshire Council
Angus Council
Argyll and Bute Council
City of Edinburgh Council
Clackmannanshire Council
Dundee City Council
East Ayrshire Council
East Renfrewshire Council
Falkirk Council
Fife Council
Highland Council
Midlothian Council
Moray Council
North Ayrshire Council
North Lanarkshire Council
Renfrewshire Council
Scottish Borders Council
Shetland Council
South Lanarkshire Council
West Lothian Council
West Dunbartonshire Council

Other Organisations

Equal Opportunities Commission
Joseph Rowntree Foundation
Scottish Centre for Research on Social Justice
The Jeeley Piece Club
Citizen's Advice Scotland
The Poverty Alliance
The Wise Group
Craigmillar European Partnership
One Parent Families Scotland
Oxfam
Economic Development Association (Scotland)
Capital City Partnership

Health Bodies

NHS Argyll and Clyde
NHS Ayrshire and Arran
NHS Dumfries and Galloway
NHS Grampian
NHS Greater Glasgow
NHS Fife
NHS Highland
Western Isles NHS Board
NHS Health Scotland
NHS Quality Scotland
Appendix 2: Q1 - Examples of funding targeted at area deprivation.

Note: Some responses did recognise that not all of these funds were specifically deprivation area targeted but did make an impact on tackling the aspects of individual or family deprivation which bring greater benefits to deprived areas than to other areas. Not all respondents specified the method of allocation. The list below includes some funding that is specifically targeted and some that is distributed through AEF. This is not an exhaustive list.

Working for Families Fund
Funding for Families
Supporting People
Community Regeneration Fund
Community Voices Programme
Anti-Social Behaviour
Warm Deal Measures
Funding for Adult Education and Numeracy
Teachers for Deprivation
Quality of Life
Special Educational Needs Resources
Community Safety Partnership Award Programme
  • Local Action Fund
  • Safer City Centre Initiative
Childcare Partnership Funding
Changing Children’s Services Fund
Workforce Expansion and Development
Building Safer, Stronger and Attractive Communities
Housing Estate Regeneration Fund
Initiative at the Edge -SE initiative specifically designed to address the deprivation of remote island communities.
Hungry for Success
Financial Inclusion
Integrated Community Schools
Sure Start Strategy
Childcare Strategy
National Priorities Action Fund
Education Maintenance Allowance
Free School Meals
Clothing Grants
Children’s Services Development Fund
Enhanced Debt Services
Homelessness
Rough Sleepers
Finance Committee

22nd Meeting 2005 – Tuesday 25 October 2005

Cross-cutting Inquiry into Deprivation: Written Evidence Submissions

Background

1. Members will take evidence today from three witnesses as part of its cross-cutting inquiry into deprivation. The witnesses will be: Mr Ian Mitchell, Director of Community Regeneration, Communities Scotland; Mr David Nicoll, Chief Executive, Wise Group; and Ms Abigail Howard, Head of Policy and Research, Wise Group.

2. All written submissions received have now been distributed to Members. However, additional copies of the Communities Scotland and Wise Group submissions are attached for ease of reference.

Recommendation

3. Members are invited to review these submissions.

Susan Duffy
Clerk to the Committee
7 October 2005

Dear Kristin

Cross Cutting Inquiry into Expenditure

Further to your correspondence of 12 July 2005 to Angiolina Foster, Chief Executive, inviting evidence for the Finance Committee: Cross Cutting Inquiry into Deprivation. I now attach Communities Scotland’s response.

I appreciate the extension provided to the original deadline to allow us to complete our work in relation to the submission of Regeneration Outcome Agreements to Ministers.

As outlined in our response the submission will inform the evidence provided by Ian Mitchell when he attends the Committee on 25 October 2005.

I trust the submission addresses the questions set out in your call for evidence, however if you require any clarification or further information please do not hesitate to contact me.

Yours sincerely

[Signature]

Ian Mitchell
Director of Regeneration
Communities Scotland  
Finance Committee Cross Cutting Inquiry into Deprivation  
Submission of Evidence from Communities Scotland

Introduction

1. Communities Scotland is an agency of the Scottish Executive and our role is to help deliver the policy objectives and Partnership Agreement commitments of Scottish Ministers in relation to housing and community regeneration. We report to the Communities Ministers and work closely with them, along with colleagues in the Scottish Executive Development Department. We use our front line experience to help Ministers develop policies and programmes relating to housing and community regeneration, and then to deliver them. Our role in community regeneration is to help the efforts of other people and agencies to work together towards Closing the Opportunity Gap objectives and targets. Our activities also bring us into contact with other portfolios in the Executive.

2. Our response has been structured around the four questions set out within the committee’s original invitation to submit evidence. The submission will also form the basis of the evidence to be provided by Ian Mitchell, Communities Scotland, Director of Regeneration when he attends the committee on 25 October 2005.

3. Our response is based on the experience of those funding streams for which Communities Scotland has responsibility as identified by the DD-Regeneration Unit in their submission of June 2005. The relevant programmes identified which Communities Scotland has responsibility for are:- Community Regeneration Fund, Community Voices Programme Fund, Affordable Housing Investment Programme, Housing Estate Regeneration Fund and Fund to Develop Post Offices in Deprived Urban Areas.

4. Each of these programmes are specifically targeted at the most deprived communities in Scotland. However Communities Scotland also manages a number of other funding programmes which do not have the same level of targeting within their criteria but do focus on the achievement of national regeneration priorities and/or ‘Closing the Opportunity Gap’ objectives. The nature of these programmes is such that significant levels of funding through each is routed to more deprived communities across Scotland.

5. Our response does not deal with the wider overview of deprivation policy and strategy within which these programmes operate. This was previously set out in the paper tabled at the Committee’s meeting on 19 April 2005 and further developed in the DD-Regeneration Unit submission of June 2005.

6. **Question 1. What are the most effective types of funding in tackling area deprivation?**

6.1 The experience of Communities Scotland and the programmes that we deliver tells us that tackling area based deprivation and importantly its underlying causes cannot be achieved through a single funding stream and requires targeted regeneration funding and policy to work alongside mainstream services and funding to provide strategic and holistic responses to the needs of the communities affected by high levels of multiple deprivation.
In recent years we have seen targeted regeneration funding move from a focus on the funding of individual local projects to more co-ordinated programmes concerned with the identification and achievement of specific outcomes.

6.2 Communities Scotland has been responsible for managing the Social Inclusion Partnership (SIP) programme which provided funding to projects in deprived communities and has worked with colleagues within Development Department involved in the management of the Better Neighbourhood Services Fund (BNSF).

6.3 SIP annual reports and individual evaluations have highlighted the effectiveness of the programme in: supporting local project activity within deprived communities to deliver positive outputs; contributing to bringing together local partners to work together on joint projects and the importance of engaging communities in developing and delivering local activities. These reports and evaluations have also highlighted that the programme could have done more to tackle the underlying causes of area based deprivation and influenced mainstream services to a greater extent.

6.4 The BNSF programme building on the experience of SIPs introduced an outcome agreement approach to tackling community regeneration as a mechanism for achieving greater impact on underlying causes of deprivation through more holistic responses. The experience of BNSF suggests that this is a sensible approach. Indeed, an independent overview of the early development and implementation of BNSF Local Outcome Agreements (LOAs) concluded that:

“Despite the difficulties experienced, Pathfinders found the evidence based approach implicit in LOAs attractive. LOAs offer a coherent and logical framework within which to develop new policies to combat disadvantage and subsequently assess their effectiveness.

There is also evidence of the benefits of an outcome focused approach from the final evaluations of BNSF pathfinders.

“The requirement that the Programme be based upon outcomes has provided a useful and effective way of tackling local issues. The majority (though not all) of the outcomes defined in the LOA have been clear and measurable, making progress easy to see”. (North Ayrshire)

6.5 In July 2004 the Communities Minister announced the creation of the £318m Community Regeneration Fund (CRF) as the key programme aimed at regenerating the most deprived communities in Scotland. It merged and replaced the former Social Inclusion Partnership (SIP) and Better Neighbourhood Services Funds (BNSF) and also the Tackling Drugs Misuse Fund which was routed through SIPs. The CRF builds on the experience of both previous programmes and will be implemented through Regeneration Outcome Agreements (ROAs).

6.6 Regeneration Outcome Agreements are three-year (2005-08) strategic and operational planning documents drafted by the 32 Community Planning Partnerships (CPPs) across Scotland for approval by Scottish Executive Ministers. ROAs set out how CPPs intend to use their allocation of the £318m Community Regeneration Fund (CRF) alongside partner resources to achieve better and additional outcomes in targeted regeneration areas. Outcomes are developed against the Executive’s five National Priorities for Community Regeneration.
6.7 The allocation of CRF to Community Planning Partnerships is based on clearly defined need, linked to areas of multiple deprivation as identified by the Scottish Index of Multiple Deprivation 2004 (SIMD04). CRF will work alongside other targeted funding and mainstream budgets to tackle deprivation within targeted communities. The paper to the Committee on 19 April (FI/S2/05/11/3) highlighted targeted funding at point 66 as £462m whilst the block grants to health boards and local authorities, point 67, was around £16bn. At the same point the paper highlighted that only £6m of the £227m allocated to ‘deprivation’ in health and £120m allocated for ‘poverty and deprivation’ in local (RSG) was targeted on deprived areas. This point highlights the importance, where possible, of further focusing mainstream policy budgets and public sector spending to address the needs of our most deprived communities.

6.8 The key principles upon which the Community Regeneration Fund and the Regeneration Outcome Agreement approach are based are:

- The allocation of funding based on evidenced need
- A focus on the achievement of high level outcomes
- The principle of CRF working other initiative and mainstream budgets to maximise the impact within targeted regeneration areas
- Linking opportunities and need to allow investment in locations that can maximise benefits for targeted communities
- That communities require to be at the heart of regeneration, engaged it the outset and involved in the development and delivery of local services

6.9 Communities Scotland supports a number of further investment programmes aimed at tackling area deprivation over and above the main CRF programme. Housing investment represents a key driver for regenerating deprived communities. Communities Scotland’s affordable housing investment programme and housing estate regeneration fund both target resources into the most deprived communities across Scotland. Of the total approved Affordable Housing Investment Programme of £405m in 2005/6, £332m is geographically targeted, of this £128m, some 38%, is specifically targeted at the 15% most deprived communities across Scotland. The funding of housing investment alongside community regeneration activity is critical in establishing a balance between the physical, social and economic regeneration of these communities.

6.10 The effectiveness of funds to tackle area deprivation is in part connected to their ability to engage local communities in the regeneration process. In relation to the funds managed by Communities Scotland the £3m Community Voices Programme has been developed on the back of our previous Empowering Communities Fund allocated to area based SIPs. The Fund is aligned to the CRF and ROAs produced by Community Planning Partnerships and offers CPPs a mechanism for engaging communities in supporting the development and delivery of regeneration activities. This issue of community engagement is further developed in section 9 of this submission.

6.11 The experience from the SIP, BNSF and other programmes managed by Communities Scotland supports the view that the most effective types of funding in tackling area deprivation are those that:

- Are clearly based on identified need, supported by a strong evidence base
- Work in a holistic way and are actively supported by a range of local partners who see them as contributing to their strategic objectives
• Are delivered through an outcome based approach which independent research shows “offers a coherent and logical framework within which to develop new policies to combat disadvantage and subsequently assess their effectiveness”
• Look to influence, the targeting of other available resources and in particular mainstream funding from other public sector agencies
• Combines the physical regeneration of an area with a programme of social, environmental and economic regeneration
• Places communities at the heart of the development and delivery of programmes

7 Question 2. What are the major financial barriers to tackling area deprivation? What types of action can overcome these?

7.1 A key criticism from Stakeholders is that there are too many funding programmes, which can lead to a lack of strategic focus. By merging three previous community regeneration programmes into a single fund, the introduction of the CRF will address some of that criticism. The ROA framework should also lead to a more joined up approach and encourage more effective input from mainstream budgets. The level of mainstream resources far outweigh those available for targeted regeneration programmes and it is vital that these contribute effectively. For example, revenue funding available to local authorities over the 3-year ROA period amounts to over £30 billion compared to CRF of £318 million. This acknowledges that the response to area deprivation is not solely about targeted regeneration programmes and there is a clear need to reflect the important contribution of mainstream funding/services in sustaining service delivery and lasting change in deprived communities.

7.2 This rationalisation of funding is being addressed through the ROA process and we are also seeing this happen through the pathfinder Urban Regeneration Companies (URCs) in Clydebank, Craigmillar and Raploch where a holistic and long term approach is being taken to tackling community regeneration and the funding contribution from the Scottish Executive is only a small part of a much larger package of support from partners both in the public and private sector. The regeneration of these areas combines programmes of housing investment with other community infrastructure such as schools and community facilities as well as supporting increased economic investment through business development. Importantly these developments utilise a mix of public and private sector investment to support community regeneration.

7.3 We are also see further potential to use the Regeneration Outcome Agreement approach to manage other smaller funding streams connected to related policy areas. For example discussions are underway with colleagues within the Executive re linkages between the ROAs and programmes of funding related to Financial Inclusion and Employability.

7.4 Short, time-limited funding is sometimes viewed as a barrier to the achievement of outcomes, many of which are longer terms. Progress is being made in this regard and we have recently seen a move from the one or two year funding approach taken by SIPs to a three year funding allocation under the CRF. However many partner agencies would welcome longer terms funding programmes to support sustained programmes to achieve long term outcomes. This has to be reconciled with spending review periods and the need to periodically assess shifts in relative deprivation across Scotland.
7.5 The experience from programmes managed by Communities Scotland supports the view that the major financial barriers to tackling area deprivation are;

- The need for funding allocated to targeted regeneration to be working alongside mainstream public sector expenditure
- The number of different funding streams and lack of connection between different initiatives
- The short life nature of some funding streams aimed at tackling deprivation
- An increased need to utilise public and private investment to support community regeneration, with investment in physical regeneration also offering spin offs through training and employment opportunities.

7.6 In terms of what types of action can overcome these barriers? The experience from programmes managed by Communities Scotland would support;

- A more joined up approach and encouragement to more effective input from mainstream budgets. Again this is being achieved through the Regeneration Outcomes Agreement approach which combined three previous funds and will continue to work with other parts of the Executive and CPP partners to improve the relationship with related programmes.
- Funding programmes agreed for longer periods, where this can be achieved within spending review periods and against regular assessments of relative deprivation. This is already happening with CRF which confirms 3 year allocations rather than 1-2 year which were seen under SIP.
- In funding initiatives to look towards the sustainability of approaches being supported for example the stimulation of social enterprise

7.7 There is an argument that continued dependency on targeted funds can inhibit creativity and innovation. Communities Scotland does not accept that this is the case in the communities most in need. There remains a need for public investment to address multiple deprivation however there is a need to view funding as a means of helping people to become more self reliant in the longer term. Communities do not want to be dependant on additional funds.

8 Question 3. What are the best ways of allocating funding for deprived areas? How can the benefits of available funding be maximised?

8.1 The allocation of funding for deprived areas should be based upon strong evidence of need. Where funding is allocated to tackle multiple deprivation then allocation of funds should be based on intelligence available from the Scottish Index of Multiple Deprivation 2004 (SIMD04).

8.2 SIMD04 is the most objective and comprehensive mechanism for informing how our targeted regeneration budget is allocated. The committee have received reports on the index from the Scottish Executive and independent advisers. While we accept that the index requires to develop and adapt we do believe that it provides a strong evidence base for allocating funding to tackle multiple deprivation. Some elements of the index can also be used to inform allocations of funds to tackle thematic issues related to the various domains, whilst recognising that this may not always be appropriate for responding to all thematic issues.
8.3 SIMD04 is a consideration by Communities Scotland in informing the allocation of other housing and regeneration budgets. However, all our funding programmes look to reflect wider opportunities which can benefit deprived areas and allow investment in neighbouring areas where this can be seen to offer benefits to those living in deprived communities.

8.4 Although resources are primarily targeted geographically using SIMD04 in some circumstances it will be appropriate to adopt a thematic approach to addressing the needs of specific target groups and issues where groups are not heavily concentrated in individual areas or where issues impact across wider geographic areas.

8.5 In terms of how can the benefits of available funding be maximised? our adoption of an outcome based approach has in part been to encourage greater linkages between targeted funds and other initiative and mainstream funding. Example of how this is being achieved are offered by the Edinburgh Regeneration Outcome Agreement where our £20m CRF investment in targeted regeneration is supported by almost £70m of other initiative and mainstream budgets. Whilst in North Ayrshire’s Reducing Employment Initiative CRF resources of £525,000 in year 1 has attracted funding of over £1.5m from North Ayrshire Council, Cunninghame Housing Association, Scottish Enterprise Ayrshire, James Watt and Kilmarnock College and European sources.

8.6 Within our other investment programmes it is normal practice to expect our investment to be matched by funding from partners. Two examples of how this operates are through our Futurebuilders Scotland Fund. To date, the Investment Fund has made awards to projects totaling £3.5m which amounts to only 18% of the total cost of implementing these projects (£19.5m), so the Futurebuilders Investment Fund is achieving good leverage. Some of the other funding sources in projects are from the public sector, trusts and other grant giving organisations, but most capital projects include an element of loan finance. In some cases, the only public finance is Futurebuilders and other grant award has enabled the applicant to access loan finance in order to purchase the asset. Whilst within the BNSF programme Glasgow City Council was successful in leveraging in over £17m to support BNSF activities from the likes of the NHS and Scottish Enterprise and West Dunbartonshire Council BNSF was matched by £10m from partners including Scottish Enterprise, SportScotland and Age Concern.

8.7 Through the CRF and other funding programmes Communities Scotland places increasing emphasis on the mainstreaming of activity supported by targeted regeneration funding when initial funding periods are completed. Both SIP and BNSF reports and evaluations highlight examples of where the continued funding of projects/programmes has been taken on by partners.

8.8 The final element of how we maximise the benefits of available funding, relates to Communities Scotland's role in working with colleagues across other Scottish Executive departments to encourage a greater focus in policy development on how other policies impact on tackling deprivation. Examples of this already exist with Anti-Social Behaviour funding clearly targeted at the most deprived communities and Communities Scotland currently working with colleagues in Enterprise Transport and Lifelong Learning Department around the linkages between the ROA approach and employability and others in Development Department re linkages between ROAs and Financial Inclusion programmes.
8.9 The experience from programmes managed by Communities Scotland supports the view that the best way of allocating funding for deprived areas and maximising benefits is;

- Where allocations are based on objective statistical evidence of multiple deprivation
- To view the fortunes of communities who suffer from multiple deprivation in a wider context
- Where funding supports a multi-agency approach to tackling the underlying causes of area based deprivation. Locally this is best achieved by allocating budgets through partnerships.
- To ensure that targeted regeneration funds lever in support from other initiative and mainstream budgets both locally and through better connections within Scottish Executive policy areas.
- To agree exit strategies for targeted investment programmes which look to activity or practice having a fixed term or being mainstreamed by partners.

9 Question 4. How can the people most affected be best involved in funding decisions?

9.1 Communities require to be at the heart of the development and delivery of services within their local areas if we are to ensure that services reflect and address their needs. Communities need to be engaged early in the regeneration process and not as an add on. Supporting meaningful community engagement will lead to projects which are valued by local communities and more likely to be effective and sustainable in the longer term. Experience from the SIP and BNSF programmes has highlighted the importance of providing communities with not just the opportunities and structures to be involved in decision making but that they also require the support and skills development to play an active and full role in these processes.

9.2 Within the ROA process Community Planning partnerships are required to demonstrate how they have integrated previous SIP communities into the Community Planning process and particularly how they have been and will continue to be involved in the development and delivery of the ROA. The process of engaging communities in the development and delivery of ROAs is supported by further funding through Communities Scotland in the form of the Community Voices Programme which provides almost £10m to Community Planning Partnerships over the 3 year period from 2005-08 to support community engagement.

9.3 Involving people in decisions relating to funding and other aspects of regeneration is a major challenge to Community Planning Partnerships and individual public sector bodies. Communities Scotland has piloted and now launched a set of National Standards for Community Engagement to assist agencies and partnerships to build their community engagement practice across all elements of how services are developed and delivered. The National Standards have been endorsed by many public bodies and partnerships as part of their own developing practice. The Standards were launched by the Minister for Communities in May 2005, to underpin how partnerships and agencies develop meaningful community engagement practice. Communities Scotland is supporting each Community Planning Partnership to implement these standards in its work by providing all 32 CPPs with consultancy support.

9.4 Through our housing investment and wider role programmes Communities Scotland provides funding to registered social landlords (RSLs) to develop and
deliver social housing and other services. Many of these RSLs have in place a range of structures and groups to involve their tenants in decisions regarding the business plans and finances for these organisations. Communities Scotland supports the involvement of tenants of registered social landlords through a team of Tenant Participation staff and a dedicated Tenant Participation Fund.

9.5 Through the Futurebuilders Scotland programme Communities Scotland is working to develop the social economy sector across Scotland and in particular within deprived communities. The fund looks to grow the asset base of the sector to allow it to take on a greater role in delivering public services within local communities. This development of a stronger community asset base allows local communities a greater degree of control in the development and delivery of local services while at the same time providing additional training and employment opportunities for local people.

9.6 The experience from programmes managed by Communities Scotland supports the view that the best ways of involving the people most affected in funding decisions are;

- By providing communities with not just the opportunities and structures to be involved in decision-making but by recognising that they also require support and skills development to play an active and full role in these processes
- Ensuring that involvement begins at the outset of developing projects and strategies to ensure buy in at the earliest possible stage.
- By public sector agencies and other partnerships endorsing a commitment to community engagement at all points in the development and delivery stages of public services. This would reflect a commitment to the National Standards for Community Engagement.
- By developing a range of mechanisms for community involvement that do not merely focus on consultation but extend to representation on decision making bodies and where possible local communities having direct control and management, together with support, for delivering public services.
- By providing the maximum clarity and transparency in decision making on the use of funds to support regeneration.

Communities Scotland

7 October 2005
SUBMISSION FROM THE WISE GROUP

Introduction

The Wise Group is a not-for-profit organisation dedicated to addressing deprivation amongst some of Scotland’s most disadvantaged communities. Our primary focus is on employment, providing training and work experience opportunities to assist those furthest removed from the labour market to find and keep a sustainable job.

The Wise Group is best known for developing the Intermediate Labour Market (ILM) model as a means not only of helping the unemployed to gain the skills and experience they need to enter the labour market, but also to contribute to the wider regeneration of deprived communities. In providing training and work experience opportunities, an ILM boosts the economic output of a community, assists in the economic regeneration process, encourages community participation and improves skill levels. The model has been used across Scotland as a medium through which to deliver socially useful activity such as environmental improvement projects, energy efficiency and advice activity, home safety and security services, community recycling and care and childcare projects. The ILM continues to be an excellent intervention that works particularly well with people who have been out of work for a significant period of time and need to bridge the gap between benefits and employment.

Over the twenty years we have been operating, the Wise Group has grown considerably and continues to develop innovative programmes that successfully target disadvantaged groups. Since 2002, we have delivered part of the governments New Deal Contracts and are the main provider of New Deal for Young People in Glasgow. We continue to develop new models of provision and have recently begun to work closely with employers such as the NHS and call centre industries to develop pre-employment support programmes. Our client groups are constantly changing and expanding and this is illustrated in the recent development of new programmes for new client groups including asylum seekers and ex-offenders.

The multi-faceted nature of our activity allows us to access a diverse range of funding streams. We are one of the largest recipients of European Social Fund income in Scotland. We also receive income from Local Authorities and Housing Associations, Jobcentre Plus and the DWP as well as other funding streams such as charitable trusts, the Big Lottery Fund and landfill tax credits. Unlike many charities our income is largely earned, with around 70% of our income being obtained through the delivery of contractual activity.

We have made use of a range of area-based funding aimed at tackling deprivation including income from Social Inclusion Partnerships and Better Neighbourhoods Services Funding in Scotland; and the Single Regeneration Budget, Neighbourhood Renewal Fund and New Deal for Communities funding in England. However we have often found these to be highly restrictive in terms of what we can deliver and who we can help. We believe that we have had most impact when delivering activity through a range of different funding streams that allow us to be flexible in our delivery, targeting our activity as broadly as possible to all disadvantaged groups and individuals.

Executive Summary

The Wise Group strongly believe that for most unemployed and economically inactive people, getting and keeping a job is the best starting point for improving their lives.
The paper will outline our perspectives on the questions asked by the Finance Committee and will advocate a broader approach to economic and social regeneration. It will argue that:

• The problems faced by deprived communities cannot be addressed through geographically limited approaches alone but must take account of the wider economies in which they are based. Bottom up and top down approaches need to be complementary, and cannot be developed without reference to each other.

• Previous attempts at area based solutions to deprivation have not always been effective and rather can often have a negative effect, stigmatising areas, increasing a sense of isolation and territorialism and promoting a ‘postcode lottery’ whereby those individuals not resident in a certain community, but suffering from disadvantage, can be excluded from programmes.

• Area-based initiatives that have a wider focus and are flexible enough to acknowledge that what benefits a community may not necessarily take place within a restricted postcode or SIMD area, would be welcome.

• The way in which funding is targeted and distributed can restrict its effectiveness in tackling deprivation. Short term funding leads to short term priorities with limited usefulness for the transformation of deprived communities.

• The heavy emphasis on innovation present in many funding streams also leads to short term approaches and can disadvantage tried and tested approaches to area regeneration.

• Longer term investments in large scale programmes such as the ILM can have a meaningful and lasting impact on areas and communities of deprivation and can act as a means of ensuring that large scale and mainstream funding programmes have an impact on areas of most need.

• Effective and appropriate community consultation is an important aspect of developing approaches to area regeneration. However localised funding decisions are unlikely to result in effective area regeneration. ‘Popular’ programmes are not necessarily those which will have most impact on deprivation and often the groups seen as least ‘deserving’ of funding (e.g. ex-offenders, refugees, people on Incapacity Benefit) are those who most require publicly funded assistance.

What are the most effective types of funding in tackling area deprivation?

Joined-up approaches are important in tackling area deprivation and it is appropriate to seek to concentrate limited resources on those that most need assistance. However geography alone is not a sophisticated enough mechanism through which to determine need.

Deprived communities and individuals do not exist in isolation and the difficulties that they face cannot be addressed without reference to issues of both supply and demand, and the larger economy in which they are based. Local joint-working on its own, cannot solve the problems of deprived neighbourhoods. Action must also be taken at a regional and/or city wide level rather than within restricted geographies.

However we do not believe that macro-economic approaches alone are enough to tackle deprivation, ‘trickle down’ will not have an impact without active approaches to
ensure that wealth and opportunity is shared across economies and targeted at those most in need. This is best achieved through programmes focussed on communities of interest, rather than within strictly defined geographical boundaries. Focussing provision on unemployed people across Glasgow for example allows the Wise Group to have a significant impact on some of the most deprived communities in the city (see below). We can demonstrate that our activity actively brings investment into the most disadvantaged areas of the city, without being restricted by area-based funding.

Localised Funding: the shortcomings

Localised funding streams continue to be used to tackle area deprivation. However, the initiatives they fund can actually have a negative impact on communities in terms of creating splits and divisions between and within neighbourhoods. Competition for funding can lead to local areas having to prove that they are more in need than others, creating a label of deprivation and an associated stigma which in itself can be damaging to a community.

Many deprived communities struggle with issues around territorialism and gang cultures. Our experience of running training programmes within deprived areas is that for many of our participants (and in particular for young men) participating on a programme such as ours can be one of the first times that they have positively interacted with individuals from rival neighbourhoods or areas. We consider this to be a significant and positive unintended consequence of our approach to regeneration activity. This benefit is lost for our projects where our recruitment is restricted as a result of area-based funding streams, which can in some instances serve to perpetuate the parochialism that prevents many of our clients from accessing employment, because of an unwillingness to seek a job outwith their own community.

Area-based initiatives can also exacerbate inequality by targeting resource at obvious clusters of disadvantage meaning that smaller pockets of deprivation within more affluent areas often do not receive the same attention or degree of support as areas where the majority of residents are deprived. Clearly a more sophisticated approach to identifying need is required.

In our experience, localised funding for small, targeted initiatives often fail to achieve significant impacts on area deprivation. This perspective is reinforced by independent research which has considered the implementation of area-based programmes, where funding is targeted at small deprived areas and has found numerous drawbacks:1

• There are often insufficient resources available to counteract the impacts of profound changes in urban economies.
• Resources for deprived neighbourhoods have often been directed through a range of discrete initiatives with specific timetables and budget requirements and insufficient attention has been given to the interdependent impacts of separately devised and managed funding programmes and other policy measures.

Furthermore research on behalf of the Scottish Parliament into Social Inclusion Partnerships (SIPs) highlighted the problems that micro-concentrations of funding are susceptible to2;

• Wasteful expenditure because of the excessive bureaucracy;
• Difficulties in securing private sector engagement;
• Difficulties in gauging how cost effective initiatives are;


• Problems defining the precise issues to be addressed in areas and on what scale in order to make a difference

It is important to clarify that we do not disagree with all area-based funding. This can be an appropriate method of tackling deprivation, but should not be limited to restrictively defined areas. The Executive’s Closing the Opportunity Gap strategy, for example, clearly aims to target groups and symptoms of deprivation and is pursuing this aim through an area-based approach. However, the strategy targets local authorities, rather than restricting funds to smaller areas of deprivation. We strongly support the Closing the Opportunity targets, and believe that they illustrate a commitment on the part of the Scottish Executive to regenerate disadvantaged areas by working to improve the economic output of regions in order to tackle deprivation in specific areas.

The Wise Group would suggest that the Executive move away from restrictive area-based funding targeted at small communities (such as Social Inclusion Partnerships) and develop funding streams in line with larger scale economic development strategies and the needs of communities of interest.

The move from Social Inclusion Partnerships to Scottish Index of Multiple Deprivation Data Zones: Making the same mistakes twice?

The decision to incorporate SIPs into the Community Planning process and therefore link regeneration funding into mainstream funding could potentially help to resolve some of the problems associated with locally focussed funding identified above but this will depend heavily upon how the Community Planning Partnerships (CPPs) subsequently allocate their funds.

The establishment of Regeneration Outcome Agreements (ROAs) that detail how monies from the Community Regeneration Fund (CRF) will be allocated should allow for more outcome-based funding. The Executive intend the CPPs to ensure that “local regeneration [is taking] place within the wider strategic context of community planning so that core public services have as much effect as possible on deprived areas and are working effectively in those areas.”

We support the introduction of ROAs as a means of developing more outcome-based funding that permits greater flexibility in the development of programmes. However, the introduction of additional tools to help determine how funding will be allocated must operate under the same principles. We would suggest that Scottish Index of Multiple Deprivation (SIMD) data zones could actually decrease flexibility and create similar problems to those experienced under the SIP regime.


Scottish Index of Multiple Deprivation (SIMD)
The SIMD is designed to identify small areas of multiple deprivation with high concentrations of worklessness. In principle, the SIMD is a significant improvement on previous area deprivation measures: the introduction of the new data zone geography allows the SIMD to pick out small pockets of deprivation previously missed by indices based on larger ward and postcode areas. In terms of data analyses and creating a map of specific areas of deprivation, this is indeed a useful information source. However, were funding allocated to multiply-deprived data zones on the basis of the SIMD, could this recreate, if not exacerbate the complications inherent to the SIP network?

A criticism levelled at Social Inclusion Partnerships was that there were too many of them and this led to overlapping aims, overly prescriptive funding and detachment from main programmes. With this in mind there are 6505 data zones in Scotland with 976 ranked in most deprived 15% (compared to 48 Social Inclusion Partnerships). There is some indication that the low ranking SIMD data zones have simply replaced the SIPs and are therefore likely to demonstrate similar shortcomings, where funding is absorbed into deprived areas at too small a level to deliver results.

Our experience to date is that the CRF approach is proving a more restrictive regime than its predecessor and in some instances has actively prevented the development of projects that could have had a real impact on deprived communities and the priorities of their residents. This is aptly demonstrated by two case studies detailed below:


CASE STUDY – THE FLAIR COMMUNITY SAFETY PROJECT

Another example of the way in which area-based funding can restrict the development of projects of benefit to deprived communities is a project developed by the Wise Group in partnership with FLAIR, which as a result of the limitations of CRF funding, never came to fruition. The project was developed in response to an identified need by FLAIR tenants and the CRF priorities for improved action on community safety. Crime and the fear of crime are significant issues in this area and the partners were keen to develop activity that would allow us to tackle this whilst providing support and training for local unemployed people. However only half of the FLAIR’s residents are living within eligible CRF datazones – the partners therefore had to decide whether to provide these services only to these residents or not to proceed with the project. The latter option was selected as the project would have no meaningful impact if only targeted on a section of the community. A more flexible approach to area-based funding would have acknowledged that tackling community safety within and on the boundaries of the SIMD areas would have a more meaningful impact than just dealing with it within limited postcode driven areas.

Neighbourhoods do not exist in isolation from the wider communities and economies in which they are based and we would advocate an alternative approach to localised funding as a means to tackle deprivation. We support the wider regeneration of ‘city regions’ where programmes targeting deprivation are linked to the markets, the prosperity, the culture and the services of their surrounding area.

City region regeneration
There has been a distinct shift amongst many policy makers towards the perception of city regions as engines of economic growth. In the North of England for example the Northern Way strategy argues that, “if city regions do not prosper, the North will not prosper”5. By developing single visions for areas through Regional Economic Strategies (RES), the Northern Way encourages effective partnerships between the public, private and voluntary sector and removes the layers of bureaucracy that a plethora of funding streams aimed at smaller pockets of deprivation can perpetuate.


City regions can be instrumental in the analyses of regional priorities and issues, in terms of both identifying market failures and creating market opportunities. Recent research has pointed to the importance of strong city regions as the focus for driving wider economic growth and productivity because of their ability to improve competitiveness and promote inclusion.

Understanding the interdependencies between city regions as a whole and the smaller areas within them is crucial to ensuring that deprived areas are in a position to take advantage of prosperity and growth. Key to this is improving tangible and intangible linkages between areas of opportunity and areas of need, for example those with high levels of worklessness and deprivation.

The Social Exclusion Unit report Jobs and Enterprise in Deprived Areas shows that concentrations of deprivation and worklessness in local areas generates social, cultural and economic effects that undermine people’s life chances, create low levels of economic participation. The report highlighted the tendency of people living in deprived areas to have shorter travel horizons to those who live in areas with the lowest rates of worklessness. Consultation with residents of deprived areas found that this was often due to poor public transport links and the fact that local people did not want to travel out of their immediate area. The refusal of some people to consider jobs that are outwith their own neighbourhood can create significant problems for service providers, particularly because a symptom of deprivation is that there are fewer employment opportunities in the locale than in areas of growth. The Wise Group have experienced this challenge in both urban and rural areas and has found that the negation of people to work outside their particular area can be as strong for people from Easterhouse and it is for those from rural Ayrshire6. In order to address this problem effectively, the Scottish Executive must develop economic development strategies that encourage links between areas of business and growth and areas with high economic inactivity. Furthermore, the benefits the benefits of job opportunities in the wider labour market for people in deprived areas need to be made clear.

Smart, Successful Scotland clearly identifies the role of city-regions in driving growth across urban and rural Scotland. A key aim of the strategy is to facilitate effective operation of local economies, labour and housing markets and to understand the interrelationship between the cities and their regions and the infrastructure, which connects them. The Wise Group would strongly support regeneration strategies that build upon the city region focus as a means of tackling area deprivation and would suggest that the Executive maintain this approach as opposed to targeting small areas with specific funding.

6 Although the additional problem of public transport tend to be greater in rural areas

What are the major financial barriers to tackling area deprivation?
In order to create successful regeneration programmes that tackle deprivation as part of macro-economic approaches, funding must be focussed on sustainable growth. Sustainability is dependent on flexible funding packages that move away from the short-termism that is endemic amongst small area-investment schemes. Short-term funding encourages short-term projects, which by the nature of their transience, makes a long term impact on deprivation less likely as an outcome.

Tackling deprivation requires long-term thinking and planning for the renaissance of communities and the transformation of the lives of their residents. However, funding attached to projects aimed at achieving just this tends to be allocated in one or two year packages, discouraging long term thinking or approaches in area regeneration.

Funding needs to be viewed in terms of area investment rather than as transitory maintenance grants for projects and therefore evaluation and methodology of funding streams should have longer timescales and outputs to reflect this.

Many funding streams have also placed disproportionate amounts of emphasis on innovation. Innovative thinking is important in the development of programmes that work but there is a danger of losing sight of the strategic direction of regeneration programmes. Too much emphasis on innovation can jeopardise tried and tested programmes, such as the Intermediate Labour Market, that have a long and proven history of success.

How can the benefits of available funding be maximised?

Funding should favour targeted interventions that are proven to help regenerate areas of deprivation. A prime example of this is the Intermediate Labour Market (ILM), which has demonstrated its success in tackling long-term unemployment and contributing to community-based regeneration. The added value of the Wise Group’s ILM rests in its ability to deliver a range of joined-up outcomes that impact on the regeneration of its local area by boosting the economic output of a community whilst improving the skill levels and employability of its locally recruited participants. The flexibility of the model means it can be adapted to create a wide range of training programmes and deliver valuable services to the community.

Among the Wise Group’s current ILMs are community wardens, landscaping and energy efficiency advisors, all of which aim to increase economic activity in an area whilst simultaneously contributing to the regeneration agenda.

After twenty years, the ILM remains successful because it can adapt to changes in the wider labour market. Our clients have changed over the years and with reform of the Incapacity Benefit we would anticipate further changes with more people with health issues coming onto our programmes. Because of the flexibility of the model we have been able to adapt it to suit the needs of different client groups and develop new demand-led ILMs which deliver a variety of projects in direct partnership with local employers that offer participants who are closer to the labour market a range of work-based learning opportunities.

EMPLOYER-LED PROGRAMMES: THE WHIGG PROJECT

The Wise Group currently operates the WHIGG project (Working for Health in Greater Glasgow) which was developed in response to employment opportunities in the NHS and aims to widen the labour market, improve the diversity of the NHS workforce and improve the health of new recruits. We have just begun the second phase of the initiative, which having helped 95 out of the 149 trainees into work in
2004, has been expanded and we expect to offer opportunities for employment this year to 350 long-term unemployed people.

The effects of ILM extend far beyond employment and training benefits to the positive influencing of the wider economic, social and environmental dimensions needed to improve areas of deprivation. Compared with other labour market initiatives for the same target group, ILM programmes have been shown to offer equivalent or better value for money after adjustments are made for the value of provision, the higher job placement and durability of employment rates and the higher incomes gained. 7

Wise Group ILMs tend to deliver regeneration activity in some of the most deprived communities. Most however do not receive area-based funding to do so but rather pull together a cocktail of regeneration and mainstream funding programmes, bringing inward investment to the most deprived communities.

The success of this approach is largely because we pull together a range of funding sources which allow us the flexibility to target our operations where they are needed. This demonstrates how funding targeted at the regeneration of wider areas or at communities of interest can be used in a way that impacts upon areas of deprivation.

How can the people most affected be best involved in the funding process?

Effective and appropriate community consultation is an important part of the development of regeneration projects. Wise Group environmental and housing based ILMs for example are usually developed as the direct result of community consultation, which has been used to identify priorities for regeneration. This is an appropriate approach: if people who are the beneficiaries of regeneration activity are not engaged in the process of developing it then it is less likely to be successful.

However we would question how far local people should be involved in making decisions about how funding is allocated. As we have argued above localised funding is not always the most effective means by which to bring about change in deprived communities. Local concerns are important but as detailed above should not be the only determinant of investment in regeneration activity, a bigger picture encompassing the wider economic sphere in which a community is based should also be taken into account.


Decisions about larger-scale regeneration activities should be consulted on at a strategic level but decisions about the funding of individual projects should not be made by referenda, this is not only a highly impractical way of making funding decisions but also one which would lead to popularist decisions that would not always be those that are best for the area of deprivation. There would be a danger that funding would not go to those areas where it is most needed. This is aptly demonstrated through an examination of patterns of public giving in the UK.

Public giving making tends to prioritise certain types of recipient – those considered to be most ‘deserving’. The most popular causes in the UK for public giving are medical research (25%), children and young people (22%) and animals (11%). Those considered most ‘undeserving’ attract far less support. We work with people who are furthest from the labour market including ex-offenders, refugees/asylum seekers and drug users. 66% of our participants have no qualifications and 70% come from a
workless household. These are serious barriers to labour entry and the difficulties of deprived areas cannot be resolved without tackling the difficulties faced by these individuals. However these are the groups most likely to be seen as ‘undeserving’. If funding decisions were made at a local level there would be a danger that, in the absence of popular support, these client groups could be excluded from the support they require.

There are also issues around how representative community consultation tends to be. Community consultations and involvement projects have been demonstrated through numerous studies to in themselves result in the disproportionate representation of a local elite. There is a danger of too much community involvement by too few people. In a series of unpublished reports and in a synthesis report, Fitzpatrick, Hastings and Kintrea (1998) described the difficulties faced by young people in disadvantaged communities and investigate the extent to which regeneration projects have met their needs. They also examined the extent to which young people had become active participants in these initiatives. They found that young people and adult decision makers typically had very different views about the priorities of regeneration and the position of young people within regeneration plans and initiatives. Drawing on the principle that young people warranted attention both in their own right and as the next generation of active citizens the


researchers found that local professionals rather than current activists initiated most activity to draw young people into the process.

Anastacio et al make the observation that approaches to community involvement will tend to engage effectively only with the most powerful groups and interests in a community when the local patterns of diversity are recognised from the outset. This is supported by Foley and Martin who found that only twenty per cent of residents said that they would like to have more say in how the local services were run. This would suggest that the most disenfranchised residents of deprived communities, such as those assisted by Wise Group interventions, are the least likely to be involved in any localised decision making process about how funding should be spent.

The Wise Group would suggest that for regeneration initiatives to work, there needs to be buy in from the local community and this should involve some degree of consultation with residents over aspects of the regeneration process, however this should not extend as far as making decisions about how funding is distributed.

10 ibid

Conclusions

This paper has highlighted a number of the issues for the Finance Committee to consider in their inquiry into deprivation expenditure. In particular the Wise Group would emphasise the limits of tackling disadvantage using localised funding that can encourage parochial provision. Area-based funding is best targeted at wider
economic regeneration strategies so that deprived communities are in a position to benefit from neighbouring areas of growth and opportunity and so that deprivation funding avoids the pitfalls of the "postcode lottery".

Furthermore, investment decisions need to take account of what works in tackling deprivation so that longstanding interventions that generate successful outcomes are not marginalised in favour of innovation for its own sake.

Tackling social exclusion and deprivation is a local and national challenge and finding a solution will involve the joint-working of national and devolved government and partner organisations. We hope that you find these comments and observations both useful and informative and we would welcome the opportunity to discuss them further with the Finance Committee.

The Wise Group is a not for profit organisation whose key focus is helping those outside of, or disadvantaged within, the labour market to change their lives through improving their labour market position. We operate throughout Scotland and the North East of England.
Finance Committee

22nd Meeting 2005 – Tuesday 25 October 2005

Council Tax Abolition and Service Tax Introduction (Scotland) Bill:
Written Evidence Submissions

Background
1. Members will take evidence today from Tommy Sheridan MSP, the
   Member responsible for the Council Tax Abolition and Service Tax
   Introduction (Scotland) Bill. Requests for written evidence in the form
   of the Committee’s standard questionnaire on financial memoranda
   were sent to the Convention of Scottish Local Authorities (COSLA), the
   Chartered Institute of Public Finance and Accountability (CIPFA), the
   Inland Revenue and the Scottish Executive.

2. Written responses were received from:
   - COSLA
   - Scottish Executive

3. These responses are attached.

Recommendation
4. Members are invited to consider the responses received to inform their
   questioning.

Susan Duffy
Clerk to the Committee
SUBMISSION FROM COSLA

Council Tax Abolition & Service Tax Introduction (Scotland) Bill

1. COSLA welcomes the opportunity to provide feedback on the Council Tax Abolition and Service Tax Introduction (Scotland) Bill. To summarise our response we would not support the recommendations included in the Bill.

2. COSLA supports and recommends the retention of the council tax system. In order to arrive at this position COSLA has undertaken a detailed critique of a five of non-business tax options: council tax; domestic rating; land value tax; local income tax and poll tax. The criteria used for this assessment were:
   - Ability to pay
   - Easily understood
   - Fairness
   - Preventing avoidance
   - Administratively Efficient / Cost of Collection
   - Stability / Predictability

3. The review was undertaken as part of our submission to the Local Government Finance Committee. Please find attached a copy of the relevant excerpt from our report for your information. We would like to refer you to this excerpt to provide details of the analysis undertaken along with our findings.

4. In summary, this evaluation highlighted that Council tax is the only taxation option that meets the key criteria for measuring the suitable forms of local taxation. The council tax system is valid and effective and should continue to be regarded as the main local taxation system for local government.

5. However, COSLA recognises that the council tax system needs some refinements. These include an immediate revaluation of properties, the creation of additional council tax bands and the simplification and review of the benefits system to address the needs of those on low incomes. Not only will this make the council tax system as effective as possible but it will also ensure that the current system does not lose its credibility or be perceived as being out of date or unfair.

6. Given our strong views on the subject we are not in a position to comment on the financial memorandum attached to this Bill and we would ask you to note COSLA’s position in your overall considerations.

Vicki Lewis
Policy Manager
COSLA
EXCERPT FROM - *Local Taxation in Scotland: A consultation by the Local Government Finance Review Committee*

1. NON BUSINESS LOCAL TAXATION

1.1 In line with the Consultation’s request, COSLA has prepared its response as a critique against the identified non business taxation options. The critique considers the options against a number of identified categories which the Consultation refers to as a ‘checklist’.

1.2 In previous evidence to the Inquiry, COSLA emphasised that the local taxation base level is inappropriately low and that serious consideration needs to be given to expanding this base to improve accountability arrangements.

1.3 The key principles against which the non-business taxation systems will be assessed are shown in Table 1.

*Table 1: Basic Principles*

<table>
<thead>
<tr>
<th>Principle</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to Pay</td>
<td>This principle ensures that there is public support for the tax. In defining ‘ability to pay’, consideration must be given to the liable person’s assets and not just their sources of income. A local taxation system also needs to incorporate an effective rebate or relief system which recognises and assists those on low incomes.</td>
</tr>
<tr>
<td>Easily Understood</td>
<td>Tax bills must have clear and definitive explanations as to what they represent and any exceptions within them, fully explained. Tax bills must be understood by taxpayers in order to have credibility.</td>
</tr>
<tr>
<td>Fairness</td>
<td>Local taxation systems should be impartial between one person and another. Taxpayers want a system which is fair and equitable and not subject to discretion.</td>
</tr>
<tr>
<td>Preventing Avoidance</td>
<td>Local taxation systems should be developed and set up to ensure that it is difficult for taxpayers to evade and avoid. Property based taxes are good examples of this.</td>
</tr>
<tr>
<td>Administratively Efficient / Cost of Collection</td>
<td>Any system of local taxation should be administratively efficient. The system should enable straightforward collection at a relatively low cost.</td>
</tr>
<tr>
<td>Stability / Predictability</td>
<td>There is a need for taxpayers to have some certainty around future payments and for councils to be certain of the revenues they will be required to raise and how much this will generate.</td>
</tr>
</tbody>
</table>
2. **COUNCIL TAX**

2.1 The introduction of the Council Tax in 1993 followed a period of uncertainty regarding local government domestic taxation. In 1989 domestic rates were abolished and replaced by the Community Charge, which itself was abolished in 1993 with the introduction of the Council Tax. Council Tax and Community Charges represent, in many aspects, entirely different concepts of taxation. Council Tax is primarily a property tax (although with a personal element as outlined in paragraph 10), whilst Community Charge was an entirely personal tax.

2.2 When introducing Council Tax, elements were incorporated to reflect the main criticisms which had been made of the predecessor domestic property tax, domestic rates.

2.3 For the purposes of the Council Tax, properties are placed in one of 8 valuation bands which are specified by statute. Each band contains a range of capital values and it is therefore necessary to estimate the selling price of each domestic property on a statutorily defined date subject to certain assumptions, eg the property must be assumed to be in a reasonable state of repair.

2.4 Valuations for domestic rates were based upon the hypothetical rent which could be achieved if the house were to be offered for let. This created difficulties as there were only a limited number of domestic lettings available for analysis. It was therefore necessary to create schemes of valuation for application to all properties, from a limited body of appropriate rental evidence. This made the basis of valuation difficult to understand particularly for the uninitiated ratepayer.

2.5 The conversion to the use of capital values has a number of very significant advantages. There is an extensive body of sales evidence available which enables accurate valuation of all types of properties to be undertaken. Furthermore, local taxpayers are for the most part able to make an informed judgement on the value of their property and also have a right of appeal if they are of the view that the valuation is not correct. In addition, unlike the rating system, the valuation is based on bands of value rather than exact value.

**Ability to Pay**

2.6 For the majority of households, property values, particularly derived from capital values, are a reasonable reflection of ability to pay. There is however some evidence to suggest that those with the lowest incomes are liable to pay a higher amount of tax in relation to their income, although this is offset to some extent by a rebate arrangement.

2.7 Council Tax is a combination of personal and property taxation. The discount scheme is particularly advantageous to single residents and whilst the discount is applicable irrespective of income, it will be particularly beneficial to those persons of limited means who live alone. It includes a “sole residence provision” which stipulates that a 25% discount is applicable in situations where only one adult resides in a chargeable dwelling. There are further provisions relating to “disregarded persons”. A statutory list of categories of persons, eg students or the severely mentally impaired has been compiled, and if any person is included within any of
those categories they are disregarded for the purposes of calculating discounts. Discounts are therefore available to some taxpayers depending on the composition and characteristics of the household.

Easily Understood
2.8 The council tax system is well documented in terms of the bandings and the calculations of the actual council tax within each local authority. Local Authorities are required to provide full explanations of how the council tax has been calculated and some detail on how the tax revenue will be spent.

Fairness
2.9 In terms of council tax, all other things being equal, a taxpayer who lives in a Band D property in a local authority area will pay the same as someone else living in a Band D property within the same boundaries of that local authority area.

2.10 There is currently no statutory requirement to undertake Council Tax Revaluation. The current banded values are based on the values of houses as at 1 April 1991. This creates considerable difficulties for valuers attempting to allocate bands to newly built properties. If no revaluations were to take place then taxpayers will perceive that the liability for tax is not related to the current value of their property. However, from the point of view of tax stability, revaluations are problematic. Even if it is accepted that the purpose of revaluation is redistribution rather than the creation of additional income, there is a possibility that an individual’s liability may alter significantly following a revaluation. Furthermore, at revaluation, the relative movement in values is unlikely to be uniform throughout the country but will exhibit wide variations from one area to another.

Preventing Avoidance
2.11 The council tax (which is 50% property based) is a good example of a taxation system in which the liable person can be identified relatively easily. Therefore the risk of avoiding the tax is minimised. The collection rates for council tax across Scotland reflect the fact that the tax is difficult to avoid.

Administratively Efficient / Cost of Collection
2.12 The system is already in place and fully operational. Property taxes are, in general, less costly to administer than personal taxes. In the absence of revaluations, the maintenance of the Council Tax Valuation List involves only very modest levels of expenditure. There is, however, an ongoing need to administer the benefits and rebates system.

Stability /Predictability
2.13 The yield from Council Tax is more stable and predictable than a tax based on income. The general tax base is very stable with the number of chargeable dwellings varying only very modestly from year-to-year to reflect new houses and deleted properties. The yield from Council Tax is much less variable between years than an
Income Tax or Sales Tax. Council Tax complements the national tax systems and provides a broad tax base.
3. DOMESTIC RATES

3.1 Domestic rating was abolished in Scotland in 1989 in favour of Community Charges. Domestic rating revaluations had been carried out in 1973, 1978 and 1985 in Scotland whereas in England and Wales in 1989, no domestic rating revaluation had taken place since 1973. The government of the day had become increasingly unsympathetic to the system of domestic rating and following the 1985 revaluation in Scotland and the political furore which it generated, measures were brought forward to abolish domestic rating completely. The system of Community Charges was introduced in 1989 in Scotland and in 1990 in England and Wales. So severe was the public reaction to the introduction of Community Charges that the system across the UK lasted only until 1993 when it was replaced by Council Tax.

Ability to Pay
3.2 The previous domestic rating system was not related to an individual’s ability to pay and it is assumed that the re-introduction of domestic rating would not take account of an individual’s ability to pay either.

Easily Understood
3.3 One of the criticisms of domestic rating was that the assessed (rental) value was not linked in the mind of the taxpayer to actual market rental evidence. When the tax was introduced in 1854, most domestic properties were leased. Empirical rental data was accordingly readily available and used in arriving at the assessed value for individual properties. In the latter half of the 20th century, the advent of the Rent Acts had the effect of diminishing the supply of privately owned housing for lease and that, together with the gradual move towards owner occupation had rendered the perceived link between actual value and assessed value ever more tenuous. Another common criticism of domestic rating was that it was a tax on improvements to properties. If the taxpayer improved their property the effects of these improvements were taken account of in a higher assessed value.

3.4 By contrast the property element of Council Tax is based on an assessment of capital value. The evidence base of capital values is much stronger and the perceived link between the Council Tax band and market value is thus much more readily understood. The system of wide value bands under Council Tax has also reduced the scope for dispute about factors which have a relatively minor effect on value. To overcome the ‘tax on improvements’ criticism, improvements to properties under Council Tax are only taken account of at the time a property is sold.

Fairness
3.5 A common criticism of domestic rates was that the dwelling house in which people lived did not reflect their ability to pay the tax. The counter was that the value of a person's home broadly reflected an ability to pay with the system of rebates taking account of individual cases of hardship.

3.6 It may also have been considered that a degree of regressiveness in a local property tax was acceptable when taken against the positive features of stability of yield, difficulty of avoidance, and clear link to the local area.
**Preventing Avoidance**
3.7 As a tax based on property, the scope for avoidance of domestic rates was relatively low. The tax base for domestic rates historically was relatively stable with the number of chargeable dwellings varying from year to year mainly to reflect new houses and dwellings which had been deleted. Collection rates were generally very high and yields predictable.

**Administratively Efficient / Cost of Collection**
3.8 It is thought unlikely that a return to domestic rates in their form prior to abolition would be acceptable. A property tax based on capital values such as Council Tax has been shown to work and to have caused low political turbulence since its inception in 1993. If similar public reaction were to take place the cost of collection would rise dramatically and local authorities would face high levels of non-payment and reduced levels of taxation yield.

**Stability / Predictability**
3.9 Given the frequency of domestic revaluations in the past and the presumption that a similar timescale would take place if domestic rates were introduced then this would give stability and predictability to some degree to both the individual and to the local authority. Changes in the property market would enable an individual to predict the likely increase in rates before any valuation and estimate the taxation they would be liable for. Local authorities would also be able to use the market as a guide for calculating tax yield and set rate increases accordingly.
4. **LAND VALUE TAX**

4.1 Land value tax is envisaged as a local tax levied on the current market value of unimproved land. The basis of the tax may be either rental value or capital value. Under a system of land value taxation, land would be valued in accordance with its optimum use within existing planning and other relevant law. Buildings and other improvements would be disregarded but ‘merged’ improvements (levelled site, transport infrastructure, water, sewerage, utilities, etc) would be included in value. In this way, land value taxation would tend to act as an incentive towards optimum development of land.

4.2 The principle underlying land value taxation is that it is levied on economic land rents which landlords derive from their ownership of land. It is argued that taxation of rents from land, which is in inelastic supply, will not cause any change in supply and demand and cannot be shifted from the ownership of land.

4.3 The moral and ethical argument underlying the case for taxation of land as a source of wealth, therefore, is that the value of land is created by the community at large rather than by the particular owner at any point in time. The amount paid for land reflects socially created demand and is not a payment to bring land into existence. Proponents of land value taxation argue that if the community can recoup by way of land taxes some of the value it has created, this would be a more equitable way of raising government revenues.

4.4 More recent proposals for taxation of land by way of a land value tax tend to be in the context of an alternative revenue source supplementing other existing property taxes.

4.5 Because of the ‘optimum use within existing planning and other relevant law assumption’, it is clear that the success of a system of land value would depend on complementary and efficient interaction with planning and other relevant legislation.

4.6 In theory, all land within the valuation area would be subject to land value taxation (including agricultural land and public parks which are exempt from valuation under current non-domestic rating legislation). Identification of each parcel of land in separate ownership would present an immediate practical issue since an easily accessible and complete register of ownerships does not exist. The Land Register for Scotland over time will provide a definitive register of ownerships but current registrations only cover about 30% of all ownerships. Under existing legislation, land is only registered in the Land Register when it is sold. Some estates held in public ownership (e.g. Crown Estate, local authority owned property) may never be sold and therefore have never been registered in the Land Register.

**Ability to Pay**

4.7 Land value tax would be a local property tax and would fall on all owners of land in a local authority area. The tax base would accordingly be more narrowly based than that of council tax and non-domestic rating taken together. The tax cannot be ‘passed on’ to tenants because ultimately market forces would prevent a landlord from charging more than the economic rent for the land.
Easily Understood
4.8 A major aim of introducing a land value tax is to encourage land development and this cannot be easily aligned to local accountability in terms of charges and services delivered. There will also be confusion on issues such as who determines what constitutes an ‘optimum’ use of land. It is assumed that this will come from a number of sources at both a local and national level.

Fairness
4.9 If land value tax were to be introduced as a supplementary tax it could be considered as a means of offsetting, to some extent, the burden imposed by council tax and rates at present levied on dwelling houses, non-domestic subjects and improvements to land.

Preventing Avoidance
4.10 As this is a property based tax the risk of avoiding this form of taxation is the same as with council tax and therefore the risk of avoiding the tax is minimised.

Administratively Efficient / Cost of Collection
4.11 Clearly there would be significant initial costs in setting up land value tax. These would be incurred in relation to staffing, training, I.T., setting up of databases, etc. By allocating the valuation task to existing networks of local authority based valuers and the appeals machinery to existing tribunals, the overhead of setting up completely new organisations could be avoided.

4.12 Once a Land Value Tax Roll has been established it could be relatively cheap and easy to administer. Because improvements are excluded the assessment process would be simpler. There are fewer factors to be considered in arriving at a land value by comparison with valuation of buildings. Land Value Tax assessors would not be concerned with new construction and alterations and additions to existing properties, which in turn would mean fewer inspections. There would be more scope for the utilisation of mass appraisal techniques perhaps using geographical information systems, since a land value tax base is less complex and more uniform in comparison to Council Tax and non-domestic rating bases which take account of improvements.

4.13 There would however be real difficulties in arriving at land values in the first place. There is limited evidence of open market transactions in unimproved sites and whilst it is possible to derive land values from sales of improved sites there would be difficulties in defending valuations derived in this way before an appeals tribunal. The extrapolation over a wide area of values based on a limited number of sales or rents would be to divorce the tax from the market.

4.14 The revenue from taxes on land could be used to reduce or supplement Council Tax and Non-Domestic Rates, both of which to some extent tend to act as a deterrent to new construction and improvements to existing buildings.

Stability / Predictability
4.15 One clear advantage of a tax on land is that land is permanent and its value is relatively stable. Capital values by contrast are more volatile being subject to short-
term supply and demand factors. Buildings can be rendered unusable for property tax avoidance purposes but land cannot.

4.16 The introduction of a land value tax would tend to encourage earlier development of sites. It would make it relatively more expensive to hold onto idle land in anticipation of larger future returns. Land value taxation puts pressure on owners to ensure optimal development of land; whilst this will not reduce land tax it will reduce the burden in relative terms. Land value taxation would tend to promote and encourage building development by taxing land at its value for highest and best use thus penalising owners of undeveloped land.

4.17 Once fixed for land value tax purposes and published in a Land Value Tax Roll, the valuation base, subject to appeal adjustments, should be fixed until there is a revaluation. In principle therefore, Land Value Tax yields should be stable and predictable.
5. **LOCAL INCOME TAX**

5.1 In each of the reviews of local taxation systems carried out in the last 25 years, consideration has been given to introducing a local income tax as either a full or partial alternative to local property based domestic taxes. Growing political pressure is being placed on the introduction of some form of local income tax and indeed it is now part of political parties manifestos at both local and national level.

5.2 A local income tax could take a number of forms and these were examined by the Layfield Committee (1976) and in the Green Paper “Alternatives to Domestic Rates” (1981). The favoured form was a local income tax fully integrated with the national income tax system and it is this form that this critique comments on. A local income tax of this kind would be charged on the same tax base as the national income tax. It would thus be levied on income from earnings and pensions, investments income and profits of unincorporated businesses, but not on company profits.

5.3 A local income tax could be either an alternative to the existing domestic taxation system or a supplementary source of revenue to local authorities.

**Ability to Pay**

5.4 The introduction of a local income tax is directly linked to an individual’s ability to pay. The tax would mean that those within in a council boundary on a similar income level would pay the same level of local taxation regardless of the property they live in. A local income tax would therefore be directly attributable to the amount of disposable income an individual has rather than their assets.

**Easily Understood**

5.5 Employers would be legally obliged to collect and pay across the local income tax to the local authority. Employers would need to administer collection and payment of income tax for more than one local authority as all employees will clearly not live and work within the one local authority. Payroll departments maybe centralised and large organisations may have many employees in many authorities meaning multiple rates and multiple payments. Existing software may not enable an employer to charge multiple income tax figures, nor even to record national and income tax levels. The cost of adapting software to meet this must be considered to ensure that local income tax can be collected and administered. An individual within an organisation may therefore pay significantly different levels of direct taxation to their colleague even though they are on the same scale and work side by side.

**Fairness**

5.6 Liability for a local income tax would be directly related to income, which is widely regarded as an appropriate measure of ability to pay. Accordingly, one of the strengths of local income tax would be its perceived fairness amongst the electorate. It could, however, be argued that the scope for avoiding or evading local income tax is considerably greater than for a property tax.

5.7 Those on low or fixed incomes would be protected through the systems of allowances and exemptions and there would be no need for a separate “benefit”
system. However, unless there was a radical review of the way in which Housing Benefit is calculated and administered, this would not result in any significant advantages or cost savings.

5.8 Local income tax on investment income would require special consideration. As some of this is currently taxed at source, national deposit takers would find it difficult to apply up to 32 rates of local income tax across their investors and at the same time, ensure consistency of residence address with PAYE deductions. One possible solution might be a nationally determined rate of local income tax on such income.

5.9 The position of unincorporated businesses would also need consideration as the proprietors of these could suffer local income tax on their profits whereas incorporated businesses would have no such liability.

5.10 Each local authority would determine its own local income tax rate. Local authorities with high wage economies would be able to set a lower tax rate than those with low wage economies to finance the same level of spending.

Preventing Avoidance
5.11 The scope for avoiding or evading a local income tax is considerably greater than for a property tax.

Administratively Efficient / Cost of Collection
5.12 There is little doubt that the collection of local income tax along with the national income tax would be technically possible. There would of course be initial set up costs, but these, together with the ongoing administrative costs, would be counterbalanced by significant reductions in the Valuation Office Agency and local authority Assessors and collection staff and associated overheads.

5.13 There would also be additional costs falling on employers in terms of administering the revised PAYE scheme and establishing residence address for staff so that the correct rate of local income tax would be applied. There would be particular difficulties for national businesses employing staff resident both north and south of the border.

5.14 Introduction of local income tax would have considerable cash flow implications for local authorities. At present, council tax is payable monthly, with the majority of local authorities requesting payment in advance for April to January. The vast majority of employees are paid in arrears, with PAYE being remitted to the Inland Revenue on the 19th of the following month. Additional delays would arise where tax liability was only determined following a tax return being made.

5.15 For local income tax to operate as part of the PAYE system, the system of coding and tax tables would have to be elaborated to enable employers to deduct local income tax at the appropriate rate for each employee. An additional element would have to be added to each code such as a local authority tax rate indicator, and additional tax tables would be needed to cover the various combinations of local and national tax rates. These changes would considerably complicate the operation of PAYE for employers as well as for the Inland Revenue. Codes would be more complex, and liable to more frequent changes and tax tables would be more elaborate,
with different tables often necessary for different employees. If these additional complications to the operation of PAYE, including the burden on employees, were to be kept within bounds, some limit would have to be placed on the number of tax rates that local authorities could use. This would mean that the rate of tax would have to be set in fairly broad steps, which would have implications for the lumpiness of the yield.

5.16 For national income tax purposes, a taxpayer’s place of residence within Great Britain is of limited significance; in general, the tax system is not organised on the basis of where the taxpayer lives. In particular, for PAYE, the tax affairs of all employees of the same employer are handled together, usually by one tax office. A local income tax would thus entail a new requirement of establishing the place of residence of every taxpayer resident in Scotland only before the start of each tax year, so that the appropriate rate of local income tax could be charged, and the tax paid over to the right local authority. Information to determine place of residence for this purpose could be included in the income tax return forms, but at present these are received by only approximately one-third of taxpayers each year. Some other means would therefore have to be used for the others. In most cases there would be little difficulty in establishing the area of residence, but special rules would be needed for those who have more than one home, or who move frequently. Given the number of people who move each year, this would mean that in any particular tax year a large number of people would not be paying tax to, or at the rate levied by, the local authority in whose area they then lived.

Stability / Predictability

5.17 A change to a local income tax would inevitably lead to changes in the levels of taxation people would pay. As with Council tax rises the electorate would be able to assume levels of taxation and perceived changes to this form of taxation. Individuals would be able to predict how much tax they would pay and the impact of any changes to their income. However, direct taxation is far more disagreeable to the electorate than indirect forms of taxation such as property taxes and the council tax. Changes to any form of income tax may lead to high profile campaign and damage the political stability of a local income tax. Also given the high profile impact of changes local authorities may lose the ability to use the local income tax to address local pressures and priorities as changes to the local income tax level will be met with fierce public criticism.

5.18 Any local income tax would give rise to problems of predictability of yield. However the yield from local income tax would be buoyant with few variations in the rate of local income tax charged necessary.
6. **POLL TAX**

6.1 Poll Tax is, perhaps, the oldest form of taxation and operates on the principle that a charge is levied on every adult. There is, of course, recent experience of poll tax with the operation of the community charge system in Scotland for the 4 years from 1989 – 1993.

**Ability to Pay**

6.2 A Poll Tax does not take account of an individual’s ability to pay. The tax is based on the number of electorate and not on the disposable income which can be targeted for local taxation.

**Easily Understood**

6.3 The poll tax system can be easily understood by the electorate. The recent history of a poll tax system and the strong public reaction to this would however hinder any attempt to bring in a poll tax system of taxation even if the system to be introduced was adjusted to meet the concerns of the public raised when the last poll tax system was bought in.

**Fairness**

6.4 By their nature, poll taxes are particularly regressive as they do not take account of ability to pay. However, any form of taxation can be supplemented by a benefit scheme for low income households.

6.5 The strength of the perceptibility issue was highlighted when community charge was introduced with the provision that every adult would pay a minimum 20% of the full charge as it become a major topical issue in the UK. However, this was not demonstrated in the way intended ie by people showing their views on local government via the ballot box, rather, by large demonstrations against the principle of the tax. As in previous centuries, this form of taxation is clearly disliked in general by the majority of the public and the issue of acceptability to tax payers remains.

**Preventing Avoidance**

6.6 As the poll tax system is levied on those who are registered on the electoral register a straightforward means of avoidance is not to register on the electoral register. Without the means to ensure that an up to date register of the electorate is maintained the ability for avoidance is very great.

**Administratively Efficient / Cost of Collection**

6.7 As discussed above the key to the successful operation of a poll tax system is the maintenance of an up to date register of all those liable to pay. This presents the greatest problems in the efficient administration of this tax system. It is extremely expensive to maintain an up to date register which records people’s movements.
6.8 The operation of the community charge showed that, whilst systems could be put in place to administer the tax, it was hugely expensive, was subject to evasion, did not receive general acceptance with an end result of poor collection performance.

Stability / Predictability

6.9 As with council tax the introduction of a poll tax system would offer stability and predictability for both a local authority and for individuals.

7. SUMMARY

7.1 The critique above provides a broad and factual commentary on five local taxation systems. The commentary has been provided based on the key parts of the checklist contained within the consultation document as outlined in Table 1. A summary of each taxation system’s assessment against these principles is shown in Table 2 below.

Table 2: Critique of Domestic Taxes

<table>
<thead>
<tr>
<th></th>
<th>Council Tax</th>
<th>Domestic Rating</th>
<th>Land Value Tax</th>
<th>Local Income Tax</th>
<th>Poll Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to Pay</td>
<td>?</td>
<td>X</td>
<td>√</td>
<td>√</td>
<td>X</td>
</tr>
<tr>
<td>Easily Understood</td>
<td>√</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>√</td>
</tr>
<tr>
<td>Fairness</td>
<td>√</td>
<td>X</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Preventing Avoidance</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Administratively Efficient / Cost of Collection</td>
<td>√</td>
<td>X</td>
<td>√</td>
<td>√</td>
<td>X</td>
</tr>
<tr>
<td>Stability / Predictability</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>X</td>
<td>√</td>
</tr>
</tbody>
</table>

7.2 The above table demonstrates that council tax is the only taxation option that meets the key criteria for measuring the suitable forms of local taxation. This table therefore demonstrates that the council tax system is valid and effective and should continue to be regarded as the main local taxation system for local government. COSLA fully supports and recommends retention of the council tax system.

7.3 However, COSLA recognises that the council tax system needs some refinements. Not only will this make the council tax system as effective as possible but it will also ensure that the current system does not lose its credibility or be perceived as being out of date or unfair.
Minority View

7.4 The majority of COSLA’s members support the retention of the council tax system as the main source of Local Government taxation. However, COSLA does recognise that there is a committed minority view within some member authorities for the introduction of a local income tax system and it is important that this is recognised within its submission.
8. **REFINEMENTS TO COUNCIL TAX**

8.1 The critique of local taxation demonstrates that the council tax system is an effective local taxation system. It is COSLA’s view that the council tax system should remain. However, the current council tax system does not reflect the most effective system and it needs to be refined in a number of ways to create a more balanced system.

**Revaluation**

8.2 Within the council tax system, the valuation of properties is based on valuation at 1 April 1991. Now over a decade on and a significant shift upwards in property prices, the current valuation of properties needs to be revalued as a matter of urgency.

8.3 A proper and formal system of revaluation needs to be built into the system to ensure that the council tax system is kept up to date and reflects the current market values of properties. It also needs to remain credible and ensure that council taxpayers see this as a fair and reasonable system. The Layfield committee stated that if the local tax base were not kept up to date it would damage the long term success of the tax.

8.4 In England and Wales, a ten yearly fixed statutory cycle of council tax revaluations has been introduced. In 2005, work will start on this revaluation with the intention of issuing council tax bills in 2007 with the updated property values.

8.5 COSLA would endorse this position and seek a similar position in Scotland. It is COSLA’s recommendation that a fixed cycle of revaluation is introduced as early possible.

**Valuation Bands**

8.6 At the time of implementation, there were 8 valuation bands set up to cover the capital values of properties. At that time, it was expected that Band D would reflect the ‘average’ across Scotland and therefore all relativities between bands were based around Band D. The reality is different and 64% of properties are in Bands A to C and 24% in Bands E to H.
Table 3: Council Tax Bands

<table>
<thead>
<tr>
<th>Bands</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>30</td>
</tr>
<tr>
<td>B</td>
<td>25</td>
</tr>
<tr>
<td>C</td>
<td>20</td>
</tr>
<tr>
<td>D</td>
<td>15</td>
</tr>
<tr>
<td>E</td>
<td>10</td>
</tr>
<tr>
<td>F</td>
<td>5.7</td>
</tr>
<tr>
<td>G</td>
<td>5.7</td>
</tr>
<tr>
<td>H</td>
<td>0</td>
</tr>
</tbody>
</table>

(Based on chargeable dwellings at September 2003)

8.7 With 64% of properties being in the lower Bands, there is a need to create a more equitable system and additional bands need to be created at the lower banding levels.

8.8 The current allocation of properties is based on the property values which are used at present. These values are significantly out of date as they are the values used from 1 April 1991. The rise in property prices during the past decade has been significant and the range of properties across the bandings will have shifted as a result of reflecting up to date property valuations eg a number of properties would now sit in Band H. It would therefore be COSLA’s view that additional banding levels need to be created at the upper banding levels as well. The valuations within the banding levels also need to be updated to reflect current property prices.

8.9 At the time of the Inquiry by the Local government Committee, an independent consultant was commissioned by the Committee to undertake work on possible scenarios for rebanding the valuation bandings and the potential impact on AEF of any changes. COSLA would refer this Committee to that work in the first instance in making any recommendations in this area.

Benefits System

8.10 The council tax benefit system which is currently in place needs to be simplified and reviewed to ensure that there is a better system which addresses the needs of those on low or fixed incomes. COSLA recognises that the council tax benefit system is a reserved UK matter and it would urge the Scottish Executive to support and promote a review and simplification of the system.

8.11 In recommending changes to the system, COSLA would wish to ensure that there is no direct financial impact on individuals and that appropriate funding is available to support any proposed changes.
Dear Mr Bell

COUNCIL TAX ABOLITION AND SERVICE TAX INTRODUCTION (SCOTLAND) BILL – FINANCIAL MEMORANDUM

I am writing in response to Judith Henderson’s letter to me dated 19 September. The answers to the questionnaire she attached are as follows.

Consultation

1. Did you take part in the consultation exercise for the Bill, if applicable, and if so did you comment on the financial assumptions made?

   The Scottish Executive did not take part in the consultation exercise for the Bill.

2. Do you believe your comments on the financial assumptions have been accurately reflected in the Financial Memorandum?

   See answer to qu. 1 above.

3. Did you have sufficient time to contribute to the consultation exercise?

   See answer to qu. 1 above.

Costs

4. If the Bill has any financial implications for your organisation, do you believe that these have been accurately reflected in the Financial Memorandum? If not, please provide details.

   The Scottish Executive’s memorandum to the Bill notes that in the Financial Memorandum the SSP quotes research estimating that the Scottish Service Tax
(SST) would have raised £2,154 million in 2001-02, £505 million above what was collected in Council Tax and Council Tax Benefits. However, this research ‘The Case for a Scottish Service Tax: Update’ assumed an additional tax band of 8% on income between £20,000 - £30,000. This tax band has not been included in the Bill, which will affect the figures accordingly. We estimate that adjusting the model to remove the 8% tax band would raise £1,962 million in 2001-02, compared with the actual revenue from Council Tax of £1,649 million (which includes approximately £300 million of Council Tax Benefit income, paid for from the budget of the Department of Work and Pensions (DWP)). This calculation indicates that the SST would raise approximately an additional £313 million per annum over and above what is currently raised in total (or around an additional £600 million if the DWP contribution is excluded).

5. Are you content that your organisation can meet the financial costs associated with the Bill? If not, how do you think these costs should be met?

The Bill does not provide sufficiently detailed information on the return of non-domestic rates to local control as proposed in the Policy Memorandum, so we are unable to provide comment substantively on the financial impact of this change.

6. Does the Financial Memorandum accurately reflect the margins of uncertainty associated with the estimates and the timescales over which such costs would be expected to arise?

The Bill makes a number of policy assumptions, changes to which may affect the overall cost, outcomes and timescales. Most notably, we do not know if monies received from the DWP in the form of Council Tax Benefit would be retained.

Wider Issues

7. If the Bill is part of a wider policy initiative, do you believe that these associated costs are accurately reflected in the Financial Memorandum?

An independent Local Government Finance Review Committee (chaired by Sir Peter Burt) was commissioned by Ministers last year to consider the whole issue of local taxation in Scotland. That Committee is due to make recommendations to Ministers in 2006 and it would be inappropriate to comment substantively on wider policy implications and associated costs in advance of Ministers’ consideration of those recommendations.

8. Do you believe that there may be future costs associated with the Bill, for example through subordinate legislation or more developed guidance? If so, is it possible to quantify these costs?

See answer to qu. 7 above.

I hope this is helpful.
Dear Des,

I write following the completion of Stage 2 of the Management of Offenders etc. (Scotland) Bill to provide a supplementary Financial Memorandum, following from amendments made at Stage 2.

Amendment 49 to the Bill, together with consequential amendments, have the purpose of ending unconditional release for offenders who receive a sentence of imprisonment of between 6 months and 4 years following conviction of a sexual offence listed in Schedule 3 to the Sexual Offences Act 2003. Such offenders will continue to be released at the half way point of their prison sentence but the amendment requires them, following release from custody, to be subject to supervision in the community until the expiry of that sentence. The amendment also allows the Parole Board (or Ministers, in cases of urgency) to order that an offender who has breached his licence conditions be recalled to custody, possibly to serve the remainder of their sentence in prison. This amendment was debated and agreed to by the Justice 2 Committee at Stage 2 on 27 September.

The enclosed Memorandum sets out our estimates of the financial impact of these amendments and I hope that you find this information helpful.

A copy of this letter goes to the convener of Justice 2 Committee.

Best wishes,

CATHY JAMIESON
MANAGEMENT OF OFFENDERS ETC. (SCOTLAND) BILL

SUPPLEMENTARY FINANCIAL MEMORANDUM

The resource impact of the proposal to end unconditional release for short term sex offenders falls mainly on the Local Authorities and the SPS. Based on 2003 figures, taken from the Scottish Executive Court Proceedings database, it is estimated that around 80 additional offenders each year will be subject to the new licensing arrangements. In terms of supervision, it is estimated that 50-75 of these offenders will be on licence at any one time.

A proportion of these will breach their licence and could be subject to recall to custody. It is impossible to predict with any accuracy how many breaches/recalls will result over any given period. However, for indicative purposes, a figure of 25% has been assumed – although this is likely to be much higher than will actually be the case. On this basis and taking the highest number of offenders likely to be on licence at any one time (75), it is estimated that around 18 offenders may be recalled to custody and not immediately re-released. Based on recall taking place on average at the half-way point of a licence period, around 8-10 additional recalled offenders could be in custody in any one year.

Costs on the Scottish Administration

Scottish Prison Service: Pre-release work will fall to the Scottish Prison Service (SPS). This will be facilitated through case conferences and risk and needs assessments with the offender and relevant social work staff, both within and outwith the prison. It will also require SPS staff to prepare and submit a dossier to the Justice Department in order that they may consider release licence conditions. SPS estimates that this additional work will cost approximately £100,000 each year, with an additional £50,000 to accommodate up to 10 recalled prisoners in any one year.

Costs on the Parole Board

Dealing with breaches of the licence conditions imposed on these offenders will, for most cases, involve the Parole Board for Scotland. Under the proposed arrangements, Scottish Ministers may refer the case of any short term sex offender who has breached their licence conditions to the Parole Board for its consideration. The Board, operating within its existing powers, will then consider whether the offender should have their licence revoked and be returned to custody. The Board will also be responsible for directing their re-release on licence if appropriate. Around 80% of those recalled are likely to be offered an oral hearing before the Board reaches a conclusion about suitability for re-release. This estimate is based on the frequency of oral hearings for long term recalled determinate sentence offenders. The cost of conducting 15 (25% x 75 x 80%) additional oral hearings would be around £15,000.

Costs on Local Authorities

On the assumption of 75 additional licences to be supervised at any one time, the cost to criminal justice social work will depend on the level of supervision provided. Standard supervision costs on average £1,000 per person per year but a higher level of supervision would be required for sex offenders. In addition, prisoners may not have undertaken offence-focused programmes in prison because of the shortness of their sentences. The cost of programmes in the community must therefore be added. This, plus the higher level of
supervision, is estimated to cost £5,000 per person per year or a total extra cost to local authorities of £375,000. In addition, a proportion of the group may also be tagged at a cost of an extra £1,000 per month or £12,000 per year. We have assumed an additional £180,000 per year to meet this cost of electronic monitoring. Based on 75 licensees at any one time, the overall cost of additional supervision package would therefore be £550,000. The costs of these additional services will be allocated to local authorities on a pro rata basis by the Executive as part of the existing 100% criminal justice funding arrangements.

Costs on police

ACPO(S) considers that there are no significant additional resource implications for the police.

Scottish Executive Justice Department
October 2005