

local power

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## About Reform Scotland

Reform Scotland is an independent, non-party think tank that aims to set out a better way to deliver increased economic prosperity and more effective public services based on the traditional Scottish principles of limited government, diversity and personal responsibility.

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## Executive summary

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### Objective

Reform Scotland's last report, 'power for the public', looked at the performance of the main public services in Scotland. It concluded that the key to obtaining better public services in Scotland, was decentralising reform. The report recommended that public services should become more accountable to their local communities with decisions taken as close as possible to the people they affect and also that a more diverse approach is taken toward the provision of public services. This greater local accountability would mean services responding far better to the different needs and priorities of local areas, while greater diversity of provision would drive innovation and higher standards for all. These recommendations would lead to a greater role for local authorities in Scotland. Although decentralising reform does not stop at the level of the local authority and there is plenty of scope for empowering individuals, devolving power to local government is the necessary starting point for decentralising reform.

Therefore, the purpose of this paper is to look at the structure of local government in Scotland and make recommendations on any changes needed to enable this devolution of power. It does so by examining the system of local government in Scotland – its structure and financial powers – as well as looking at how local government operates in other countries. For this reason, it focuses on the constitution of local government in Scotland and its relationship with Holyrood, not the delivery of specific services which will be examined in future studies. Based on our findings and Reform Scotland's founding principles, we make some recommendations about how local government in Scotland should be reformed to bring power closer to the people.

### Findings

- Local authorities in Scotland are very dependent on central government for funding, having total discretion over only 9% of their tax income stream, though a further 10% comes from sales, fees and charges. The lowest tiers of local government in other European countries have

far greater autonomy over income. For example, in Norway 43% of municipalities' income comes from local taxes, a far higher level than in Scotland despite the fact that the 434 municipalities are far smaller than Scotland's councils and half have fewer than 5,000 residents. (Section 2)

- From examining a number of different countries which operate a wide variety of local government structures, there is a clear trend toward greater local autonomy and decentralisation. Even in historically centralised countries such as France and Spain, executive powers have been devolved down to far more local communities, strengthening local autonomy. (Section 3)
- Scotland's lowest executive tier of local government is not as local as many other countries and has less autonomy. Scotland has 32 councils and a population of just over 5 million compared to Norway and New Zealand, which have 434 municipalities and 73 territorial councils respectively and both have smaller populations than Scotland. Countries like France and Spain have three tiers of local government, with the lowest tiers having 37,000 and 8,106 units respectively. In all of these countries the lowest tier of local government has executive responsibilities and the ability to raise its own income, despite often being very small in geographical and population terms. (Section 3)
- Councillors themselves want to see greater autonomy at a local level. Reform Scotland carried out a survey of all councillors in Scotland. 175 councillors responded, almost 15% of councillors. The results showed that a clear majority of councillors feel local authorities in Scotland should have greater autonomy. (Section 4):
  - 67% of respondents felt that councils did not have enough autonomy from the Scottish Government to run services;
  - 58% of respondents considered that turnout at local elections could increase if councils had greater autonomy;
  - 80% of respondents believed that local government needed more power to raise more of its own income.

## Policy recommendations

**Greater local autonomy:** We would recommend a new constitutional relationship between the Scottish Government and local government set out clearly in a new piece of legislation. This recognises both that local self

government is a fundamental principle of democracy and that an enhanced role for local government is essential to achieving the objective of better public services set out in our last report 'power for the public.' This new constitutional relationship should be based firmly on three clear principles:

- Local authorities would have responsibility for all areas which were not specifically reserved to the Scottish Parliament, which is the principle governing the relationship between Westminster and the Scottish Parliament.
- Tasks should be carried out at the lowest administrative level possible – the principle of subsidiarity which would move away from the policy of uniformity and provide an opportunity to drive forward innovation.
- Councils would provide clear and transparent information on their activities to ensure proper local accountability.

**Greater financial responsibility:** We would recommend a system in which, local government raises most of the money it spends. This is essential if councils are to have greater autonomy and be more accountable to their local communities for the decisions they take. Councils should, over time, be given the freedom to set rates over different taxes. To start this process we would recommend that business rates be returned to local control. At present there is little local control over tax raising and virtually no incentive for local authorities to set lower taxes. We would recommend that local government is given a greater incentive by ensuring that any benefits in efficiencies can be used by local councils to improve other services or reduce taxation for the benefit of the local community. Where money comes from the Scottish Parliament, it should not be ring-fenced for specific purposes, but come in the form of a block grant and local authorities should have discretion as to how that funding is used. The calculation of the block grant should be based on a clear and transparent formula based on population and specific local needs. Any attempt to introduce a centrally set local income tax should be resisted because this would reduce, rather than increase, local authorities' financial control.

**Diverse structure:** We would recommend that local communities are free to decide the structure most appropriate to their particular needs. There is no perfect blueprint for the structure of local government in Scotland as

effective councils come in all shapes and sizes. There is plenty of scope for power to be devolved closer to people in Scotland as currently the lowest executive tier of government is far more remote than that of other countries. Where there is a demand, local communities should be given the right to acquire powers over local services such as planning, recreation and primary education which are controlled by smaller, more local councils in countries such as Sweden, France and Norway. Equally, local communities in Scotland, starting with the four main cities, should be given the opportunity to vote in a referendum for a directly elected Mayor or Provost which would change the existing council structure.

**Audit of quangos:** We would recommend a full audit of all quangos in Scotland to see if their role is best provided by the public sector. Where quangos have been set up to look at local services or issues then their role should be put under local authority control. Councils would then be able to decide for themselves how a service should be provided or if it should be provided directly by them at all.

**Separate elections:** We would recommend that council elections are held on a separate day from Scottish Parliament elections in order to strengthen local accountability and welcome the Scottish Government's move towards de-coupling the elections. An election every four years between Scottish Parliament elections would allow local issues to take centre stage instead of being overshadowed by the national campaign as at present. If significant power and financial responsibility is devolved to local authorities, as suggested in this report, council elections will suddenly become far more important. This would ensure greater focus on electing a council and the local issues involved. That is the best way to strengthen local democratic participation rather than using the Scottish Parliament elections as an artificial support.

## Conclusion

Local authorities are one of the main foundations of any democratic system of government. In Scotland, they have played an enormous role in the development of our society over hundreds of years. However, their role has diminished over the last century and particularly in the period since the Second World War. This process of centralisation has not delivered the improvements

in public services seen in many other European countries. At the same time, it has led to an increase in the central bureaucracy required to monitor the array of central controls and has created an increasing gap between the governing and the governed who feel increasingly powerless to shape their lives and the future of their communities.

As our research shows, other countries have not followed this centralising path – quite the reverse. Countries such as Sweden, France and Spain have decentralised political power because they believe it is the key to better public services and to a stronger, more cohesive society. Scotland needs to learn the lessons from these countries and restore our own tradition of local self government. Diversity is one of Scotland's defining characteristics as a country and sensible policy recognises this and builds unity through accepting this diversity.

This report sets out a vision of a new constitutional relationship between the Scottish Government and local government. The new Scottish Government has made a welcome move in reducing the amount of the budget that is ring fenced for specific purposes. However, it has also moved in the wrong direction in proposing a centrally set local income tax. The vision should be based on the principle that power in our society should be exercised at the lowest possible level with local authorities free to address the needs and priorities of their communities and having the ability to set their own tax levels so that they can raise the bulk of their revenue. This, together with our other recommendations, is a recipe for the revival of local democracy in Scotland. It should enable us to deliver better public services which address the needs of local communities, it should reduce the huge bureaucracy needed to oversee the current centralised system of public service delivery and it should help to restore faith in our political system by bringing government closer to the people. Above all, the diversity which follows from this renewed commitment to localism will lead to progress right across society as it is only by trying many different experiments in many different places that we discover innovative ways of doing things and identify those that work. Through a combination of rivalry, co-operation and emulation this diversity will lead to improvements of benefit to us all.

# 1. Introduction

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Local government is not always seen as an interesting or “sexy” issue in politics and can be viewed as dull and boring when compared to Holyrood and Westminster with their flamboyant politicians and bigger media stories. However, local government can play a far more important role than is commonly supposed.

The major advantage of local government is that it allows goods and services to be delivered in different ways to best address the different needs and preferences of communities. The smaller the area, the more the provision of goods and services matches up to local needs and priorities. John Stuart Mill, the 19th century philosopher, summed up the situation stating:

*“The very object of having local representation is in order that those who have any interest in common, which they do not share with the general body of their countrymen may manage that joint interest by themselves.”*

The more freedom local government has from central government, the better it can respond to the particular issues and priorities in its area. However from ring fencing budgets to setting numerous detailed targets and from creating quangos which have eaten into local authority power to capping the abilities of councils to raise their own money, central government, both in Edinburgh and London, has been responsible for successive policies which have suppressed the power of local government, whilst increasing the supremacy of ministers.

In ‘power for the public’, published in April 2008, Reform Scotland argued that Scotland needed to introduce radical new ways of delivering public services that offer real value for money, in order to achieve public services which match those available in other countries. The study showed that in spite of a huge real terms increase in government spending over the past 10 years in Scotland, improvements in public services have failed to keep pace with those in other European countries, including England. As a result that report called for:

- More direct, local accountability so that services are more responsive to the needs and wishes of people and local communities.
- Greater decentralisation of public services so that operational decisions are taken as close as possible to the people they affect.

- Increased diversity of provision, which can mean different approaches in different areas as well as a wider range of service providers.

To deliver such policies will require a change to the way in which local government is structured in Scotland to enable more power to be returned to local communities.

The purpose of this paper, therefore, is not to measure the successes or otherwise of particular council administrations or how they deliver their responsibilities, but to examine the bigger picture of local government in Scotland – how it is structured, what responsibilities it has and what financial powers it has. The current constrained powers of local government mean that it is difficult to give any meaningful critique of individual council performances as the line of accountability is far from clear. Reform Scotland believes that the first priority has to be to empower local government by reforming the structure, which will then allow more meaningful comparisons of local authorities to be made, as well as helping to highlight good policy innovations that have come forward as a result of greater freedom.

The report begins by looking at the current structure of local government in Scotland, including recent changes made by the SNP Scottish Government. It then examines what can be learned from a number of overseas examples, finally setting out a number of recommendations which Reform Scotland believes will return power to the public by introducing greater local powers.

On the basis of the recommendations made in the report, Reform Scotland's publications on health, crime and education will go into the detail of how public services could be delivered at a more accountable and local level.

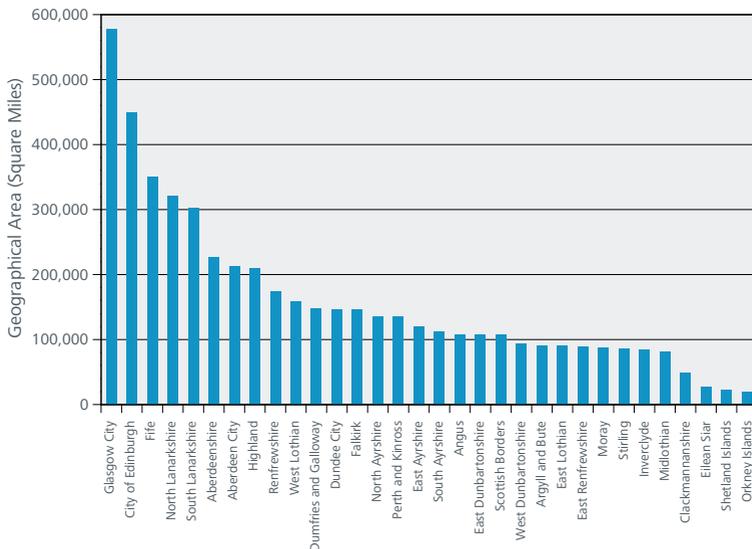
## 2. Local government in Scotland

### 2.1 Introduction

The Local Government (Scotland) Act 1994 abolished Scotland's 9 regional and 53 district councils creating the unitary system of 32 local authorities in place in Scotland today. Within those 32 councils, 1,222 councillors are elected to represent multi member wards.

The structural make up of local authorities varies hugely throughout the country from the number of people they represent, to the geographical size of the area and the number of councillors elected, as illustrated in Figures 1 to 3.

**Figure 1:** Population of local authorities in Scotland at the 2001 census<sup>1</sup>

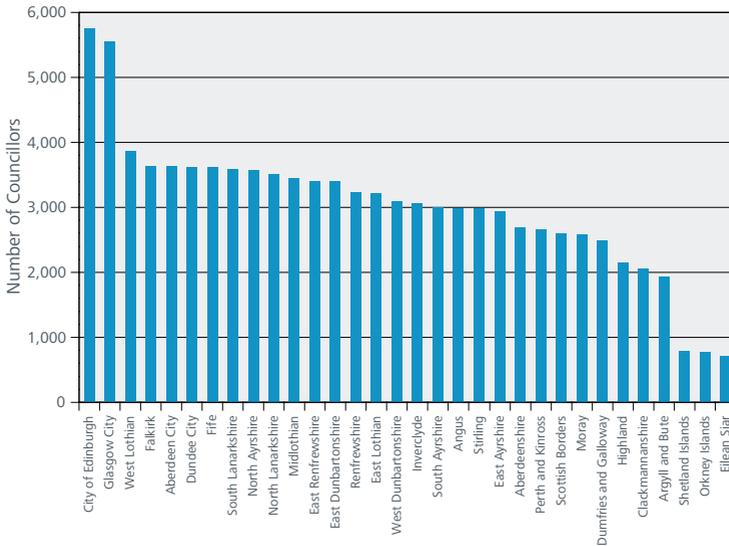


<sup>1</sup> Scotland's Census Results Online, [www.scrol.gov.uk](http://www.scrol.gov.uk)



In addition to these differences, the number of voters each councillor represents also differs greatly across Scotland. For example, in the 3 member Langside ward in Glasgow, there are 18,280 electors, an average of over 6,000 per elected representative. In contrast, in nearby West Dunbartonshire's 4 member ward of Clydesdale Central there are 11,969 electors, resulting in an average of fewer than 3,000 people per elected representative. This means a councillor in Langside represents twice as many voters as a councillor in Clydesdale Central.<sup>2</sup> The average number of electors per councillor is illustrated in Figure 4. Generally it is the bigger cities that have less representation per capita.

**Figure 4:** Average number of voters a councillor represents in each Scottish local authority<sup>3</sup>



The organisational structure within councils varies considerably to reflect the differences illustrated above. For example, in larger more rural areas, such as Aberdeenshire, it is common to have local area committees, where certain

2 General Register Office for Scotland, Electoral Statistics, December 2007

3 General Register Office for Scotland, Electoral Statistics, December 2007

responsibilities are delegated down to committees made up of local councillors from that area.

Equally the political management of councils differs between cabinet and committee systems. In a cabinet system, a cabinet is appointed by the ruling party or parties to make decisions, which are then scrutinised in committees. The cabinet does not need to reflect the political make up of the council. In a committee system, decisions are made by committees which reflect the political make-up of the council, though the chairmen of committees are normally appointed by the ruling party or parties.

At the same time as the creation of unitary councils, joint boards were created to cover services, such as policing and fire, which had a more regional dimension. As a result these boards comprise councillors from the constituent local authorities. Only in two council areas, Dumfries & Galloway and Fife, are there coterminous boundaries between a local authority, Police board and health board.

## 2.2 Voting system

Up until 2007, councillors were elected by a first-past-the-post voting system, however this was replaced in time for the 2007 local elections with a single transferable vote election system where 3 or 4 councillors are elected to represent each multi-member ward. The new voting system is far more proportional, rewarding political parties with a number of councillors which better reflects their share of the vote. As a result of this system, in most of Scotland's councils it is unlikely that any one party will achieve an outright majority. Currently only in two out of 32 councils does one party have an outright majority, (Labour – Glasgow and North Lanarkshire), though both Orkney and Shetland have a majority administration of independents.

The change in the voting system also marked a change in councillors' remuneration. Prior to May 2007, the basic rate for a councillor was up to £7,321, though many received additional discretionary special allowances. From May last year most councillors earn just over £15,000 a year, with council leaders earning up to £51,000.<sup>4</sup>

<sup>4</sup> Scottish Government, "Scottish Local Authorities Remuneration", 2007

## 2.3 Finance

The cost of funding local government services comes primarily from the Scottish Government through grants. Local authorities also raise money through a locally set and collected council tax. Council tax is applied to all domestic properties, which are each allocated to one of eight bands (A to H) on the basis of the value of the property at 1 April 1991. (There has been no revaluation of domestic properties since then.) The distribution of the tax burden amongst the eight bands is determined by a “multiplier” formula which means that the tax payable by the highest band (H) in any local authority area is three times that for the lowest band (A).

Non-domestic rates are taxes on property payable by businesses. The tax is calculated by multiplying an assessed rateable value for a business property by a non-domestic poundage rate, currently 45.8p<sup>5</sup>, which is set centrally by Scottish Ministers. Although the revenue is collected locally, it is sent to the Scottish Government where it is then re-distributed, not based on where it was raised but on a population basis.

In 2006-07, £9.3billion of the £19billion in revenue income received by local authorities was from government grants, with just under £2billion raised from council tax.<sup>6</sup> **Table 1** outlines the full breakdown of all sources of income to local government:

<sup>5</sup> <http://www.scotland.gov.uk/Topics/Government/local-government/17999/11199>

<sup>6</sup> Scottish Government, “*Local Government financial statistics 2006-07*”, February 2008

Table 1: Local authority income 2006/7<sup>7</sup>

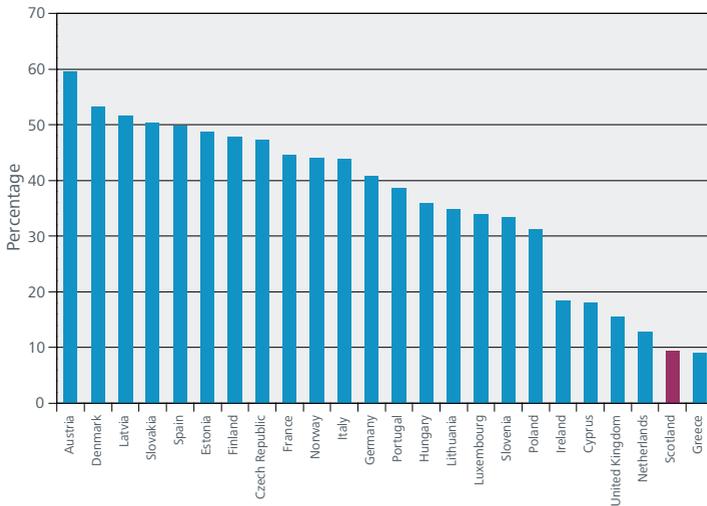
	£millions	Percentage of total
<b>Total income</b>	£20,167	100%
<b>Revenue income</b>	£19,120	94.81
<b>Non domestic rates</b>	£1,884	9.34
<b>Council tax</b>	£1,812	8.98
<b>Government grants</b>	£9,283	46.03
Revenue support grant	£5,777	28.65
Council tax rebate grants	£359	1.78
Other grants and subsidies	£3,147	15.60
<b>Sales, fees and charges</b>	£2,047	10.15
<b>Other income</b>	£4,058	20.12
<b>Contributions from general fund</b>	£20	0.10
<b>Increase on revenue balances</b>	£15	0.07
<b>Capital income</b>	£1,047	5.19
<b>Proceeds of asset sales</b>	£451	2.24
<b>Repayment of loans by private sector</b>	£2	0.01
<b>Private sector contributions</b>	£73	0.36
<b>Public sector contributions</b>	£520	2.58

Table 1 illustrates how local authorities are so very dependent on central government for funding, with total control over only 9% of their tax income stream, with a further 10% coming from sales, fees and charges. Sales, fees and charges include items such as car parking charges, planning application fees and rent from council housing.

<sup>7</sup> Scottish Government, "Local Government financial statistics 2006-07", February 2008

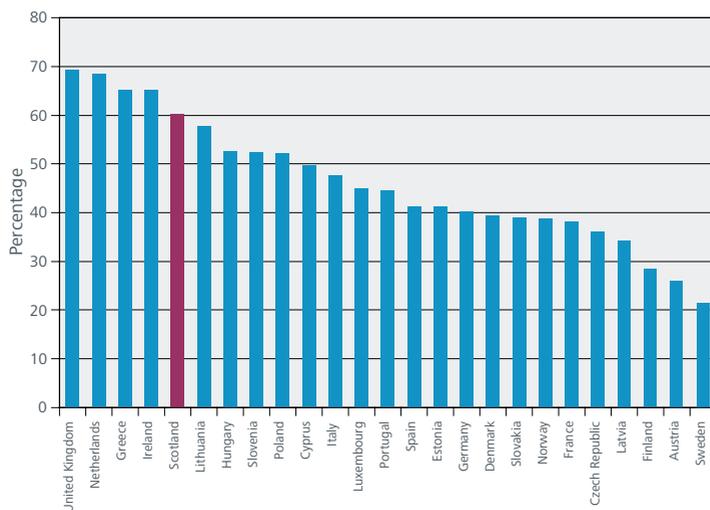
When compared to other European countries, the low amount of income that is controlled locally is even starker – as illustrated in Figures 5 and 6.

**Figure 5:** Total local government tax revenue as a percentage of total local government revenue across Europe, 2005.<sup>8</sup>



<sup>8</sup> Bauer, H & Rudolf C, "Local Finance in Europe. An overview 2000/05", Centre for Public Administration Research, May 2006. Scottish Figures based on Scottish Local Government Finance Statistics 2004/5. Redistribution of business rates by central government were defined as grant income for the UK as a whole, so are therefore also not included in the Scottish figure.

**Figure 6:** Total government transfers as a percentage of total local government revenue across Europe, 2005<sup>9</sup>



Both the previous and current Scottish Governments have given consideration to changing local government finance, however reviews have tended to focus on amending the council tax or swapping it for a different tax, rather than expanding the financial powers of councils.

The previous Labour/ Lib Dem Scottish Government set up the Local Government Finance Review to review different options for local taxation and identify the pros and cons of implementing any changes to the local taxation system in Scotland. This reported in 2006 and recommended that council tax should not remain in its current form and that a local property tax should be introduced instead, set at an average of 1% of the current market value.<sup>10</sup> However this policy recommendation was not adopted.

<sup>9</sup> Bauer, H & Rudolf C, "Local Finance in Europe. An overview 2000/05", Centre for Public Administration Research, May 2006. Scottish Figures based on Scottish Local Government Finance Statistics 2004/5. Redistribution of business rates by central government were defined as grant income for the UK as a whole, so are included in the Scottish figure.

<sup>10</sup> Local Government Finance Review Committee, "A fairer way", 2006

Part of the SNP's manifesto ahead of the 2007 Scottish elections was to introduce a local income tax to replace the council tax. However, this proposal would see the local income tax rate set at a Scottish level, effectively removing the only discretion over taxation that local authorities have. It would, therefore, increase councils' dependence on the centre, rather than decreasing it.

## 2.4 Responsibilities

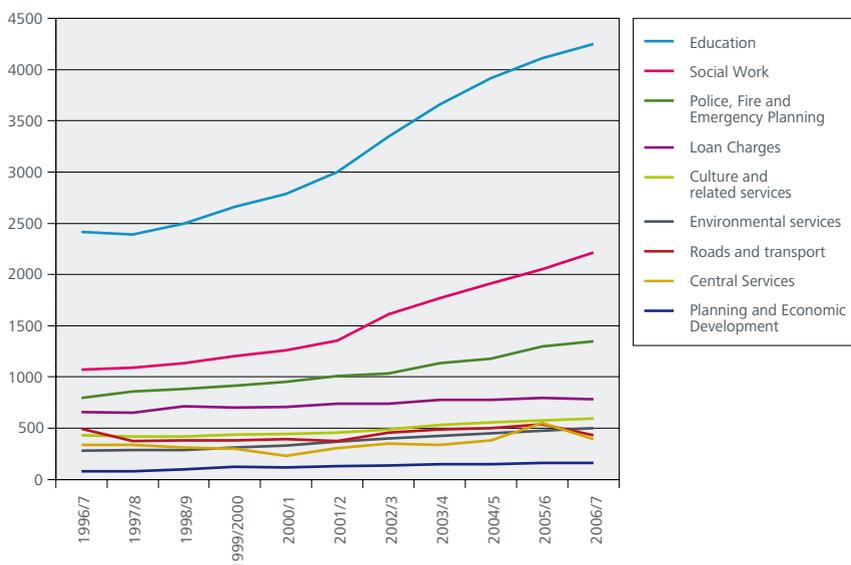
Local authorities have a wide range of responsibilities in Scotland some of which they are required to carry out whilst others are up to local discretion. Mandatory powers which they have to carry out cover areas such as the provision of schooling for all 5 to 16-year-olds; provision of fire cover; promotion of social welfare; provision of housing for the homeless; and, initiating and facilitating Community Planning. Permissive powers include promoting economic development and promoting arts and tourism.

Education and social work are the most expensive elements accounting for 40% and 21% respectively of council's revenue expenditure.<sup>11</sup> [Table 2](#) outlines the different spending areas and the level of expenditure in those areas, whilst [Figure 7](#) shows how the level of expenditure has changed over the past decade. (A breakdown of what is covered under each heading and the level of expenditure is included in [Appendix A](#).)

<sup>11</sup> Scottish Government, "Local Government financial statistics 2006-07", February 2008

Table 2: Summary of net expenditure by Scottish councils in 2006/7<sup>12</sup>

Area	Total net expenditure 2006/07	% of net expenditure
Education	£4.252billion	40%
Social work	£2.212billion	20.8%
Police, fire and emergency planning	£1.347billion	12.67%
Culture and related services	£562million	5.56%
Environmental services	£502million	4.72%
Roads and transport	£432million	4.06%
Central Services	£392million	3.69%
Planning and economic development	£160million	1.51%
General fund contributions to housing	£607,000	0.01%
General fund contributions to trading services	£8.46million	0.08%
Loan charges	£782million	7.35%

Figure 7: Net current expenditure by service 1996/7 to 2006/7<sup>13</sup>

The problems being faced in each of the main areas of responsibility vary considerably across Scotland as Figures 8 to 11 illustrate.

<sup>12</sup> Scottish Government, "Local Government financial statistics 2006-07", February 2008

<sup>13</sup> Scottish Government, "Local Government financial statistics 2006-07", February 2008

Figure 8: Crimes by local authority area 2006/7<sup>14</sup>

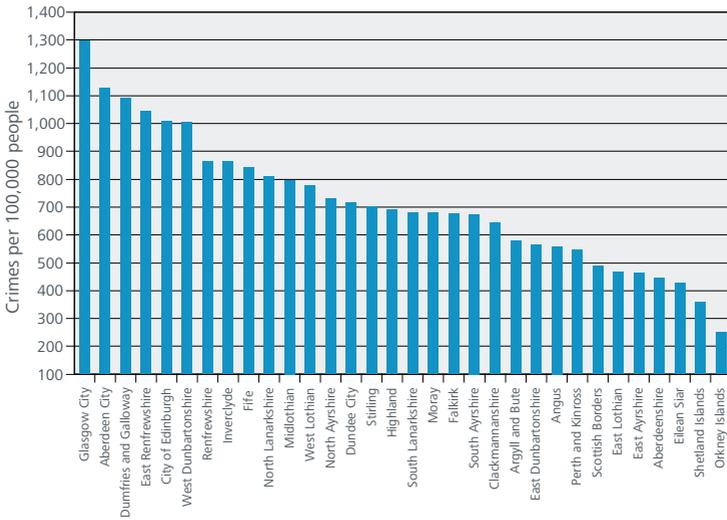
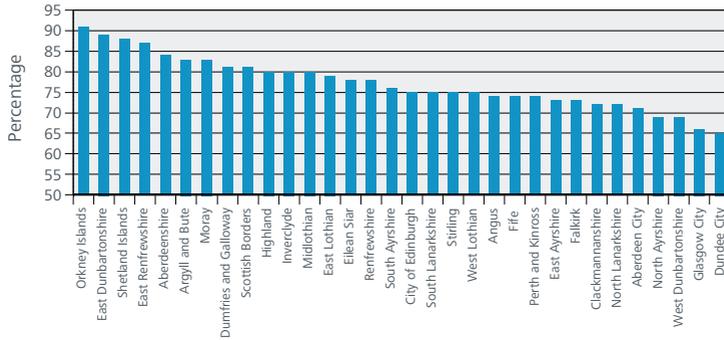
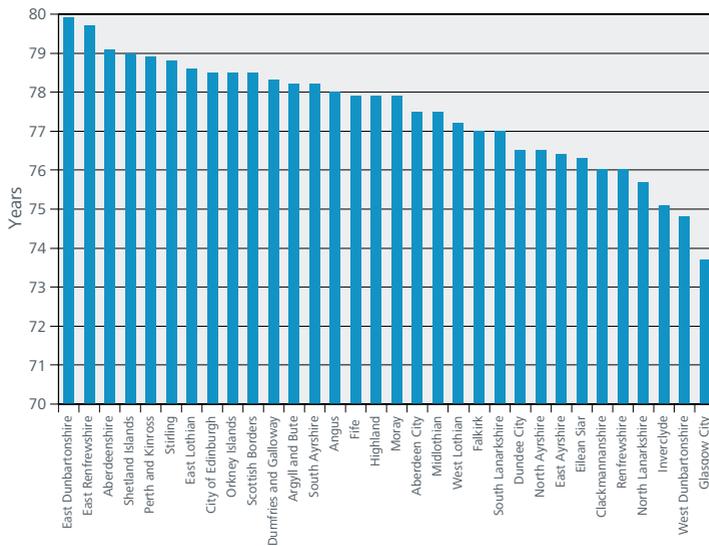
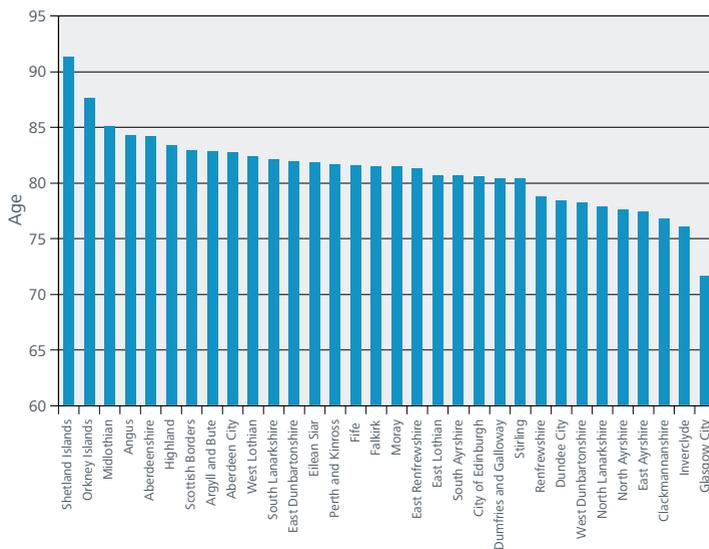


Figure 9: Percentage of the S4 year group achieving five or more awards at SQF Level 4 - Standard Grade general level or equivalent 2006/07.<sup>15</sup>



14 Scottish Government, "Recorded Crime in Scotland 2006/7", September 2007

15 Scottish Schools online

Figure 10: Life expectancy 2004-2006<sup>16</sup>Figure 11: Percentage of working age individuals who are economically active 2007<sup>17</sup>

16 General Register Office for Scotland

17 Office for National Statistics, Labour market statistics 2007

The huge variation in issues being faced by local authorities illustrates the point that a one-size-fits-all solution imposed from the centre makes no sense. The best placed people to deliver solutions to local problems are local people through local government.

## 2.5 Community councils:

Community Councils were created by the Local Government (Scotland) Act 1973 when the former, smaller town councils were abolished. The objective was to ensure there could be input from the “grassroots” to local Councils. All local authorities are responsible for setting up what are known as Community Council Schemes to outline how community councils should be organised in Scotland. At present there are about 1,160 community councils in Scotland,<sup>18</sup> though they only cover areas where volunteers are prepared to get involved. As a result, there are some areas of the country with no representation at this level.

Generally, the main responsibility of community councils is to ascertain and express the views of the local community and they have no executive powers of their own. However some community councils, in agreement with the local authority, undertake an expanded role which can include monitoring and reporting problems, Christmas decorations and control of Common Good Funds.

Following a Scottish Government review in 2005 a Community Council Working Group was set up in 2007 to produce a model community council scheme for all local authorities as well as a code of conduct for community councillors and good practice guide. The result of this work is currently out for consultation until August 2008.

In addition to the consultation, in an answer to a written parliamentary question in June 2007 John Swinney, the Finance Secretary, suggested that the Scottish Government would consider giving greater responsibilities to community councils:

<sup>18</sup> Scottish Government, *“Consultation on draft model scheme of establishment of community councils and draft code of conduct for community councils.”* April 2008

**S3W-202 - Kenneth Gibson (Cunninghame North) (SNP) (Date Lodged Wednesday, May 23, 2007):** To ask the Scottish Executive what steps it will take to devolve budgets and decision-making to community council level.

**Answered by John Swinney (Wednesday, June 06, 2007):** The Scottish Executive will look at what steps are required to give greater responsibilities to community councils.

With regard to any statutory devolution of budgets and decision-making powers to community councils, the Executive intends to seek the views of Parliament and relevant stakeholders in order to identify any consensus for going forward.

## 2.6 Concordat between local authorities and the Scottish Government

Following the election of the SNP in May 2007, the Scottish Government announced that it was seeking a new relationship with local authorities in Scotland which would see greater freedom for councils over spending through the removal of ring fencing in return for a freeze in council tax. In November 2007 Cabinet Secretary for Finance and Sustainable Growth, John Swinney, and President of the Convention of Scottish Local Authorities (CoSLA), Pat Watters, signed a new concordat introducing that new relationship. As a result, the level of grants to local authorities which was ring fenced for specific purposes was cut from £2.7billion in 2007-08 to just over £1billion in 2008-09.<sup>19</sup>

Councils are also now to be allowed to retain any efficiency savings, rather than them being diverted to Holyrood.

As part of the new relationship, a Single Outcome Agreement (SOA) between each Council and the Scottish Government is to be established. The SOA, based on 15 national outcomes agreed in the Concordat, will provide a profile of the local area drawing on indicators which are relevant to local priorities,

<sup>19</sup> Concordat between the Scottish Government and CoSLA, November 2007. The concordat states "In 2007-08, these specific grants (which include Police Grant) totalled £2.7billion. As part of the package proposed, a considerable number of these specific grants will be rolled up and transferred into the local government settlement. The level of ring fencing in 2008-09 (excluding Police Grant which both sides agree will remain ring fenced) will reduce to around £0.5billion". To give a like by like comparison, the Police Grant, which is £575.5million according to Scotland's Budget Documents 2008-09, has been added to the government's estimate of the level of ring fencing.

identify past performance trends and the local conditions for which improved local outcomes are wanted.<sup>20</sup> The national outcomes to be considered are:

1. We live in a Scotland that is the most attractive place for doing business in Europe.
2. We realise our full economic potential with more and better employment opportunities for our people.
3. We are better educated, more skilled and more successful, renowned for our research and innovation.
4. Our young people are successful learners, confident individuals, effective contributors and responsible citizens.
5. Our children have the best start in life and are ready to succeed.
6. We live longer, healthier lives.
7. We have tackled the significant inequalities in Scottish society.
8. We have improved the life chances for children, young people and families at risk.
9. We live our lives safe from crime, disorder and danger.
10. We live in well-designed, sustainable places where we are able to access the amenities and services we need.
11. We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others.
12. We value and enjoy our built and natural environment and protect it and enhance it for future generations.
13. We take pride in a strong, fair and inclusive national identity.
14. We reduce the local and global environmental impact of our consumption and production.
15. Our public services are high quality, continually improving, efficient and responsive to local people's needs.

In addition the Scottish Government and local authorities also agreed to do what was required of each to ensure the delivery of 12 key government policies.

<sup>20</sup> Scottish Government, *"Single Outcome Agreements: guidance, format & indicators for Scottish local government"*, February 2008

## 3. Local government around the world

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Local government is organised in a wide variety of ways across the western, developed world. While structures may differ, there is often a common theme of decentralisation and localism. Whilst no structure is perfect and no one example offers the ideal solution which Scotland should replicate, the following examples outline some of the ways in which power is localised in different countries.

### 3.1 Sweden

Historically Sweden, which has a population of just over 9 million<sup>21</sup>, has been fairly decentralised and has a long tradition of self-determination which is set out in the country's constitution. The legislative framework ensures that if a tier of local government is to be given new tasks to deliver; their right to self-determination needs to be taken into account and the cost of delivering the responsibility must be neutralised by adjusting the level of government grants. The constitution also states that local authorities have the right to levy taxes to carry out their duties, though they also receive grants from central government. Local authority tax raising powers mainly cover earnings. In 2004 the average county tax rate was 10.71% whilst the municipal tax rate was 20.8%.<sup>22</sup> Although the tiers of local government are free to set the level of tax, between 1991 and 1993 there was a statutory ban on increases in local government taxes and between 1997 and 1999 grants from central government to local authorities who raised taxes were reduced.<sup>23</sup>

Every local authority must have at least three auditors, who are the main instrument for providing information to the public on the local authorities' activities. The central state also monitors local authorities through agencies like the National Board of Health and Welfare.

The regional tier of government in Sweden is the country's 21 county councils which vary greatly in terms of the number of people and land they cover.

<sup>21</sup> CIA world fact book estimate for July 2008

<sup>22</sup> Ministry of Finance, "Local Government in Sweden – organisation, activities & finance", Swedish Government 2005

<sup>23</sup> Ministry of Finance, "Local Government in Sweden – organisation, activities & finance", Swedish Government 2005

There are a number of mandatory and voluntary duties counties can carry out. Mandatory tasks mainly cover health and medical care, though voluntary duties include education and tourism.<sup>24</sup> The counties are run by democratically elected council assemblies. The precise number of councillors to be elected is decided by each individual council based on guidelines for minimum councillors set by central government. Counties also have County Administrative Boards which are government agencies appointed by central government and led by a governor. It is the job of the County Administrative Board to represent central government in local government and it has a number of responsibilities such as implementing national objectives.

The 290 municipalities are the most local tier of government in Sweden, again ranging in size and population, with half having less than 15,000 inhabitants.<sup>25</sup> Municipalities, like counties, are run by directly elected council assemblies which can determine the number of councillors to be elected. Mandatory tasks of municipalities include social services, school education, basic local services such as waste and water, housing and civil defence. Voluntary duties include energy provision and street maintenance.

Cooperation between municipalities and counties is becoming more and more common, and together the two layers of government are responsible for regional and local public transport.

### 3.2 Norway

The rights and responsibilities of local authorities were first defined in Norway in 1837.<sup>26</sup> The country of 4.6million people<sup>27</sup> has a two tier system of local government with counties representing regional government and municipalities at a more local level. Both municipalities and counties vary considerably in size and geography whilst Oslo is classed as both a county and a municipality. Both tiers of local government are run by directly elected

<sup>24</sup> Ministry of Finance, *"Local Government in Sweden – organisation, activities & finance"*, Swedish Government 2005

<sup>25</sup> Ministry of Finance, *"Local Government in Sweden – organisation, activities & finance"*, Swedish Government 2005

<sup>26</sup> Ministry of Local Government and Regional Development, *"Local government in Norway"*, Government of Norway, 2004

<sup>27</sup> CIA world fact book estimate for July 2008

councillors with the precise number of councillors to be elected decided by the counties and municipalities themselves, though they must abide by a minimum level set by the centre.

There are 19 counties in Norway with responsibilities including upper secondary education, business development, culture and public transport. In addition to government grants, 42% of counties' income comes from local taxes on income.<sup>28</sup> Although the county has discretion to vary the level of income tax they apply, they are restricted by maximum rates set by central government. Counties also each have a county governor appointed by the centre acting as the government's representative in the county. While decisions are taken by the elected councillors, the governors are responsible for civil matters, such as citizenship and divorce, as well as acting as a means to appeal decisions taken by local government.

The 434 municipalities in Norway vary hugely in population with over half having fewer than 5,000 people, while Oslo has about 500,000 inhabitants.<sup>29</sup> The municipalities are responsible for delivering primary and lower secondary education, social services, local planning and local roads. The lowest tier of government in Norway has the ability to levy tax on income and property, with about 43% of municipalities' income coming from local taxes. However, as with counties, the ability to vary the level of tax is constrained by maximum rates set by central government. Ensuring the independence of municipalities, they are responsible for supervising their own activities and have to establish self-regulation regimes.

### 3.3 Spain

Spain has undergone a recent period of decentralisation which has seen the transfer of responsibilities from the central Spanish state to regional government, autonomous communities, as well as a further devolution of responsibilities both from central and regional government to local provinces and municipalities. The country has an estimated population of 40.5million<sup>30</sup>,

<sup>28</sup> Ministry of Local Government and Regional Development, *"Local government in Norway"*, Government of Norway, 2004

<sup>29</sup> Ministry of Local Government and Regional Development, *"Local government in Norway"*, Government of Norway, 2004

<sup>30</sup> CIA world fact book estimate for July 2008

within which there are 17 autonomous communities, 50 provinces and 8,106 municipalities (6,961 of which have fewer than 5,000 inhabitants).<sup>31</sup>

Autonomous communities represent Spain's tier of regional government. A range of responsibilities were transferred to the regional level of government between 1978 and 2003 based on the principle that all responsibilities not expressly allocated to central government by the Constitution are delegated to autonomous communities. This is on a par with the Scotland Act and the presumption that unless something is expressly reserved to Westminster, it is the responsibility of Holyrood. Responsibilities of the autonomous communities include health, education, social welfare and agriculture. In terms of finance, autonomous communities have some discretion over 16% of their total revenue income.<sup>32</sup> They have a degree of power on personal income tax, inheritance tax, wealth tax and the power to create discretionary taxes, for example on betting. However Navarre and the Basque Country have their own specific tax raising system whereby they levy all national taxes and pay a subsidy to central government to cover the services provided by the centre.

Provinces and municipalities didn't benefit as much as autonomous communities during the period of decentralisation, however in 2003 a new framework for sharing responsibilities between these three layers of government was introduced.

The main responsibility of provinces is to provide technical and financial assistance to the smallest municipalities, investing in areas such as roads and larger hospitals, and they can also take on any responsibility delegated to them by central or regional government. Provinces are able to levy surtax on business taxation, though it is collected by municipalities.

Municipalities are the lowest tier of government in Spain and can range in size from fewer than 5,000 people to more than 50,000. The responsibilities of the municipalities vary according to their size, however all have a number of basic responsibilities such as waste disposal, road network maintenance as well as law and order. Municipal tax receipts represent 35% of all municipal revenue

31 Loughlin. J & Luz. S, "*Subnational finances in Spain: Lessons for the UK?*", Office of the Deputy Prime Minister, 2004

32 Loughlin. J & Luz. S, "*Subnational finances in Spain: Lessons for the UK?*", Office of the Deputy Prime Minister, 2004

excluding borrowing<sup>33</sup> and have a degree of discretion on three mandatory taxes on property, businesses and municipalities' motor vehicles, as well as optional taxes on construction and capital gains.

### 3.4 France

Historically France, which has a population of 64 million<sup>34</sup>, has a reputation for centralisation; however for the past 25 years the country has been undergoing a number of changes to reverse this trend. In 1982 the French Government introduced a decentralisation law to alter the balance between state and local authorities to give greater autonomy to local authorities. The act also stated that any transfer of competence to a local authority had to be accompanied by a transfer of resources. The changes were followed in 2003 with an amendment to the constitution.

There are three tiers of local government in France – communes, departments and regions. The 37,000 communes are the lowest tier of government, with 80% having fewer than 1,000 residents.<sup>35</sup> Central government has encouraged smaller communes to work together and some have formed associations of several communes, however communes retain a strong sense of identity and as a result mergers are rare. Communes are run by a directly elected council, which in turn elects a Mayor. Responsibilities include primary school maintenance and construction, local public services such as waste and water, policing, public health, economic restructuring and management of the natural environment.

There are 96 departments in mainland France which are largely responsible for health, social services, roads and colleges. Prefects are the head of departments and are appointed by central government; however the recent legal changes gave executive authority for the departments to the chairman of the general council, where councillors are directly elected. Any argument on policy can be referred to an independent tribunal. Departments are divided into cantons which serve as constituencies.

<sup>33</sup> Loughlin, J & Luz, S, "Subnational finances in Spain: Lessons for the UK?", Office of the Deputy Prime Minister, 2004

<sup>34</sup> CIA world fact book estimate for July 2008

<sup>35</sup> France in Australia Embassy and Consulate-General "Local Government structure", [www.ambafrance-au.org/article.php3?id\\_article=445](http://www.ambafrance-au.org/article.php3?id_article=445)

There are 22 regions in mainland France which were created in 1955 to provide a framework for regional town and country planning, though other responsibilities now include economic development and building and running upper level secondary education. The regions are run by directly elected councils which are advised by an economic and social committee containing representatives from a range of organisations including businesses, trade unions and the voluntary sector.

Local taxes account for just under half of local government revenue in France<sup>36</sup> with all three layers of local government having a degree of control over a range of taxes on buildings, business and individuals.

### 3.5 New Zealand

New Zealand has a population of just over 4 million people<sup>37</sup> and has 85 different local authority units<sup>38</sup> split between two tiers of local government. Local government legislation gives local authorities a fair degree of autonomy from the centre; however, the law also emphasises that councils must show how and why decisions have been made. About 12% of local government income comes from grants from central government which, together with other subsidies is used for maintaining roads and delivering public transport.<sup>39</sup> Both regional and territorial councils have the power to levy and collect rates on property owners through three different types of rates. General rates apply to everyone with the amount paid depending on the value of the property. Councils can decide whether the rates are assessed on land value, capital value or an annual value. Targeted rates are used to fund specific functions and allow councils to take factors such as the number of sewer or stormwater connections and / or floor space into account to work out what has to be paid. Targeted and general rates can be set on a differential basis to take into account issues such as whether the property is in a rural location and the use of the property. Councils can also charge uniform annual charges which are applied to every rate payer.

<sup>36</sup> Bauer, H & Rudolf C, "Local Finance in Europe. An overview 2000/05", Centre for Public Administration Research, May 2006

<sup>37</sup> CIA world fact book estimate for July 2008

<sup>38</sup> The Department of Internal Affairs, "Local Government – what does it do?", Government of New Zealand, 2006

<sup>39</sup> The Department of Internal Affairs, "Your local council: shaping our communities together", Government of New Zealand, 2006

The 12 regional councils, which vary in population and geography, are responsible for civil defence, resource management, bio-security of regional plants and animals, regional transport and contracting of passenger services. The regional council is made up of directly elected councillors who in turn elect a chairman.

There are 73 territorial councils, though four of these also take on the role of a regional council. Of the 73, 57 are district councils and 16 are city councils where the population is in excess of 50,000, though the powers and responsibilities are the same for both types of councils. Territorial councils are responsible for community infrastructure, regulatory services, land use planning and economic development. The councils are made up of directly elected councillors and are headed up by a mayor, who is normally directly elected from across the whole council area.

Below territorial authorities there are also community boards which are similar to community councils in Scotland and don't have any executive powers, though they do sometimes carry our delegated responsibilities.

### 3.6 United States of America

The structure of local government in the United States varies greatly between and within the 50 states, with the relationship between different tiers of government set down in the national and state constitutions. The tax raising powers of different states vary depending on the state and the level of government. In the US Census of Governments in 2002, there were 87,849 units of local government covering the country of 304 million people.<sup>40</sup> Of these 38,971 are general purpose local governments, 3,034 are county governments and 35,937 are sub county governments, including 19,431 municipal governments and 16,506 township governments. The remainder, are special purpose local governments, including 13,522 school district governments and 35,356 special district governments.<sup>41</sup>

All states have a county tier of local government with most being the primary governing structure below state government. Counties are run by popularly

<sup>40</sup> CIA world fact book estimate for July 2008

<sup>41</sup> US Census Bureau, "2002 Census of governments", June 2002

elected officials and are generally responsible for local and rural roads, record keeping and law enforcement. Counties may also share responsibility with the state for benefit provision. Medical Examiners, Sheriffs, Judges, Prosecutors and many other roles can also be directly elected across counties.

Municipal and township authorities are areas within or independent of a county and have their own governing and taxing authorities. They range in size from small towns with fewer than 100 inhabitants to large cities like New York and responsibilities include public safety, parks and recreation, public transport and other essential services. The head of municipal and township authorities are usually Mayors, who are directly elected alongside a city council, though some councils have opted to hire a city manager acting as a chief executive to oversee the running of the council. Municipal and township authorities are distinguished primarily by the historical circumstances surrounding their incorporation, though often have similar powers and perform similar functions.

In most states school districts are established to run state funded education, though state governments are responsible for setting education policies and standards, with the implementation left up to a directly elected board.

Special district governments operate independently of other local government and are usually charged to carry out a specific purpose within a geographical area – for example water conservation or transportation. Leaders in these organisations may be directly elected or appointed and, as with other layers of government in the United States, powers vary widely.

Writing in the Spectator, Michael Bloomberg, Mayor of New York City commented about the value of local decentralisation and the positive impact it has on creating new ideas and improving service delivery.

*“We have learned that devolution of power coupled with local innovation can be an enormously effective force for progress. More and more, cities around the world have become incubators of innovation, and it is the mayor’s role to ensure that the city — like any successful company — is always looking outward at the world, always keeping an eye on the best new ideas.”<sup>42</sup>*

42 Bloomberg, M, “The new ‘special relationship’: between London and New York”, Spectator, 22/5/08

### 3.7 Conclusion

From countries which are historically viewed as centralist, such as France and Spain, to those where localism has always been part of their way of life, such as the USA, across the developed world there is recognition of the many benefits of giving even very small communities of a hundred people a degree of autonomy over the way in which their community is run. As a result many countries have a wide range of different types, sizes and structures of local authority, all designed to reflect local circumstances and meet the priorities of local people, rather than a one-size-fits-all approach from the centre. What is also clear is that there is no single right way to decentralise. In some countries there may be a very local and uniform system of local government, but other countries can have an equally local system, but one which incorporates a variety of tiers and structures of local power.

Table 3 illustrates the level of localism in the countries outlined in this section by highlighting the population of the country and the number of local authority units in each tier of local government representation.<sup>43</sup>

**Table 3:** Country population and number of local government units with executive power.

Country	Population	Number of regional government units	Number of second tier of government units	Number of third tier of government units
New Zealand	4.1 million	12	73	-
Norway	4.6 million	19	434	-
Scotland	5.1 million	-	32	-
Sweden	9 million	21	290	-
Spain	40.5 million	17	50	8,106
France	64 million	22	96	37,000

Table 3 clearly indicates that compared to other countries, Scotland has a fairly low level of local government.

<sup>43</sup> The average population of each tier has not been included because of the breadth of differences which exist between each unit. America has not been included as the structure of the federal country doesn't match up as easily for a direct comparison to be made. Community councils in Scotland have no executive powers which is why they are not included in the table.

In addition to the greater level of responsibility that exists at a lower level, in many other countries local authorities, regardless of size, have far greater financial powers, raising a far higher level of their income from local taxes. This helps increase the autonomy of the organisation and reduce its reliance on central government.

The UK Government has also indicated that it agrees with the notion of greater decentralisation as a signatory to the European Charter of Local Self Government which sets out the principles that should be applied to local government within all 47 member states of the Council of Europe. The Charter was originally introduced in 1985, though the UK didn't sign up to it until 1997, with it coming into force a year later.

#### The Charter sets out in article 4 the scope of local government:

1. The basic powers and responsibilities of local authorities shall be prescribed by the constitution or by statute. However, this provision shall not prevent the attribution to local authorities of powers and responsibilities for specific purposes in accordance with the law.
2. Local authorities shall, within the limits of the law, have full discretion to exercise their initiative with regard to any matter which is not excluded from their competence nor assigned to any other authority.
3. Public responsibilities shall generally be exercised, in preference, by those authorities which are closest to the citizen. Allocation of responsibility to another authority should weigh up the extent and nature of the task and requirements of efficiency and economy.
4. Powers given to local authorities shall normally be full and exclusive. They may not be undermined or limited by another, central or regional, authority except as provided for by the law.
5. Where powers are delegated to them by a central or regional authority, local authorities shall, insofar as possible, be allowed discretion in adapting their exercise to local conditions.
6. Local authorities shall be consulted, insofar as possible, in due time and in an appropriate way in the planning and decision-making processes for all matters which concern them directly.

### While article 9 covers the financial arrangement:

1. Local authorities shall be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers.
2. Local authorities' financial resources shall be commensurate with the responsibilities provided for by the constitution and the law.
3. Part at least of the financial resources of local authorities shall derive from local taxes and charges of which, within the limits of statute, they have the power to determine the rate.
4. The financial systems on which resources available to local authorities are based shall be of a sufficiently diversified and buoyant nature to enable them to keep pace as far as practically possible with the real evolution of the cost of carrying out their tasks.
5. The protection of financially weaker local authorities calls for the institution of financial equalisation procedures or equivalent measures which are designed to correct the effects of the unequal distribution of potential sources of finance and of the financial burden they must support. Such procedures or measures shall not diminish the discretion local authorities may exercise within their own sphere of responsibility.
6. Local authorities shall be consulted, in an appropriate manner, on the way in which redistributed resources are to be allocated to them.
7. As far as possible, grants to local authorities shall not be earmarked for the financing of specific projects. The provision of grants shall not remove the basic freedom of local authorities to exercise policy discretion within their own jurisdiction.
8. For the purpose of borrowing for capital investment, local authorities shall have access to the national capital market within the limits of the law.

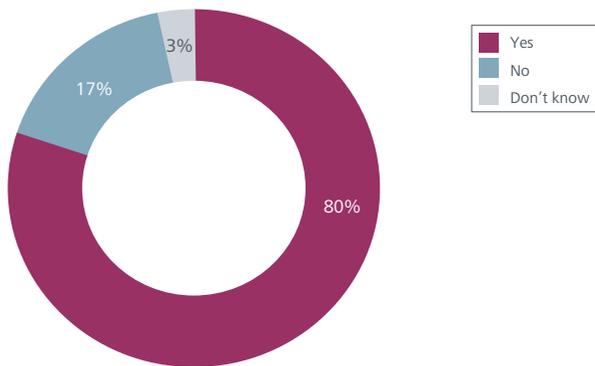
## 4. What do Scottish councillors think?

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As part of the research for 'Local Powers' Reform Scotland sent an e-questionnaire to all 1,222 councillors in Scotland asking their opinions about the structure and scope of local authorities in Scotland. 175 councillors replied, representing almost 15% of councillors, covering 31 of the 32 local authority areas and all political parties. The results are illustrated below:

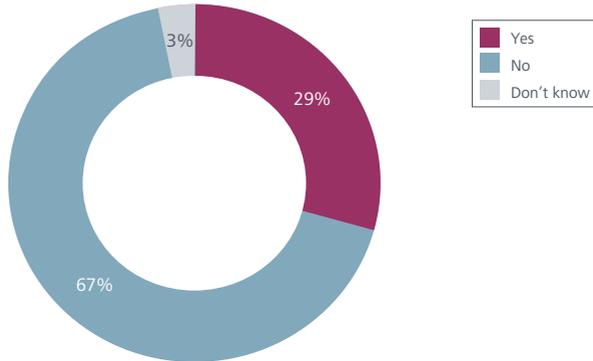
When asked about overarching local government finance a clear majority of councillors (80%) agreed that councils needed more power to raise income as illustrated in [Figure 12](#):

**Figure 12:** Should councils be given powers to raise more of their own income?

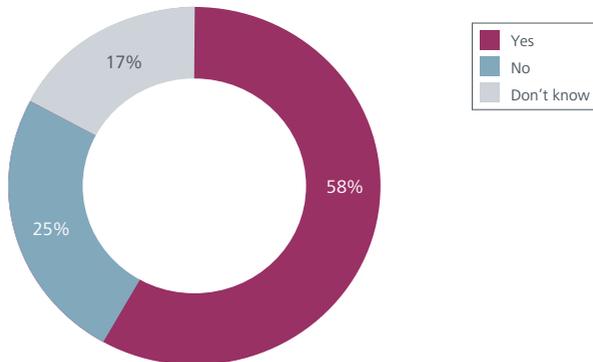


A clear majority of councillors also felt that they did not have enough autonomy from the Scottish Government to run services, while a slight majority considered that turnout at local elections could increase if councils had greater autonomy:

**Figure 13:** Do you think councillors have enough autonomy from Holyrood, regardless of who runs the Scottish Government, to run services?

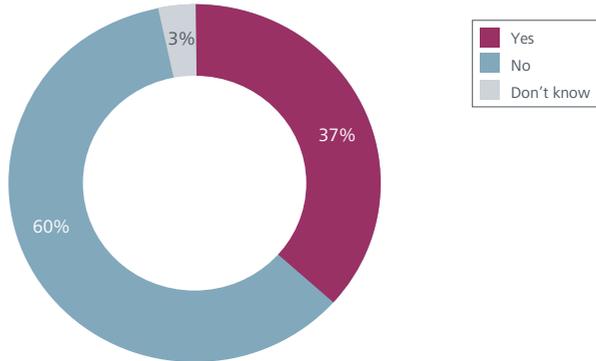


**Figure 14:** Do you think that if local authorities had more direct control over public services this would increase turnout in local elections?



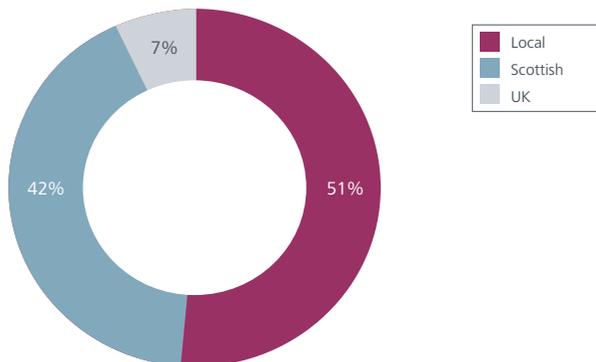
However a majority of councillors did not want councils to be able to choose which taxes they should levy.

**Figure 15:** Should councils be able to choose which tax raising methods they each use to raise income?

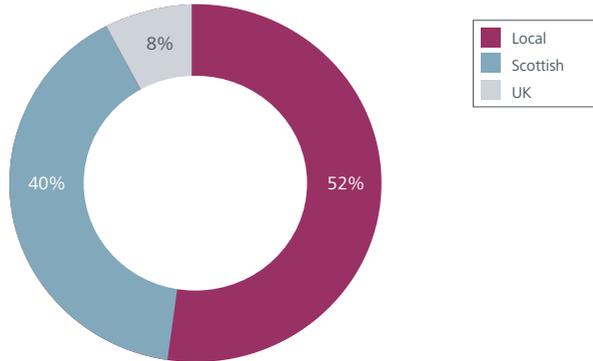


Councillors were then asked specifically about business rates and the proposed local income tax and where such taxes should be set. In both cases there was a slight majority in favour of setting the taxes at a local level.

**Figure 16:** Should business rates be set at a local, Scottish or UK level?

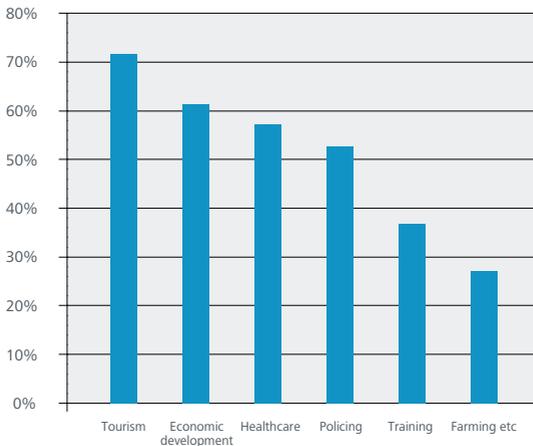


**Figure 17:** If a local income tax were to be introduced, should it be set at a local, Scottish or UK level?



When asked about where local government should be given a greater role in service delivery, a majority of councillors thought this should apply to tourism (72%), economic development (62%), healthcare (57%) and policing (54%).

**Figure 18:** What responsibilities do you think could be delivered more effectively if a greater role was given to local authorities?



Councillors were also asked what one change they would make to local government in Scotland. This produced a wide variety of answers which are outlined in [Appendix B](#); however answers that came up repeatedly were to devolve more power to local authorities as well as scrapping the STV voting system and returning to a first past the post system with smaller wards.

## 5. Policy recommendations

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This report follows on from Reform Scotland's last report, 'power for the public', which concluded that the key to obtaining better public services in Scotland, which match the improvements seen in some other countries, was decentralising reform. This would require the structure of public services in Scotland to be more localised with greater power devolved down to people and communities. The report found that by increasing local accountability, service delivery could far better respond to the different needs and priorities of local areas. This diversity of provision would in turn drive innovation and higher standards for all.

These recommendations would lead to a greater role for local authorities in Scotland. Although decentralising reform does not stop at the level of the local authority and there is plenty of scope for empowering individuals, devolving power to local government is the necessary starting point for decentralising reform. Therefore, this paper examines how local government in Scotland should be reformed to achieve this aim and bring power closer to the people, particularly in the light of the decentralisation that has taken place in many other countries. This recognises that the trend over the last century in Scotland has been one of greater centralisation of power. Once started, this is a vicious circle. The more ministers interfere in local affairs, the more they are held responsible for poor outcomes, while the more they are blamed, the more they interfere.

In recent times, centralisation has occurred in a number of ways. The role of local authorities has been diminished by removing certain powers and transferring them to appointed quangos. Councils have also seen their financial freedom curtailed with the introduction of the capping of their budgets and a far greater share of local revenue coming in the form of central grant. In addition, funding has become tied to central policy objectives and councils' room for manoeuvre has been further constrained by the raft of central controls, directives and targets.

This process of centralisation has usually been justified by the need to remove regional discrepancies in the provision of public services – the so-called 'postcode lottery'. In fact, intervention by central government has not removed

variations in performance which remain as wide as ever, as illustrated by [Figures 8 to 11](#) in section two. In attempting to impose standards from the centre, it has also encouraged uniformity and so discouraged the innovation necessary to raise standards for all.

It is not surprising that this approach has, therefore, failed to deliver the expected improvements in the delivery of public services. Trying to control and direct public services from the centre has also required a vast bureaucracy to set, monitor and administer the vast array of targets and directives. This has resulted in waste and inefficiency.

Equally, centralisation undermines faith in our political system. When power becomes too remote, people feel less able to shape their own lives and the future of their local communities. This leads to increasing frustration and apathy with people seeing less reason to become involved in the political process.

The SNP Government, elected in May 2007, recognised the need for a change of direction and a new relationship with local authorities. It signed a concordat with CoSLA to introduce the new relationship and established a Single Outcome Agreement (SOA) between each council and the Scottish Government. While the reduction in ring fencing agreed by the concordat is to be welcomed, a large part of the agreement was aimed at ensuring that councils froze council tax. Negotiation may be preferable to enforcing spending caps on councils, however the end result is the same – the centre is exerting its control over local taxation. Similarly, while it is important for communities to know how their council is performing, and publishing key statistics is an important element of this, local authority administrations should have the freedom to set their own agenda based on the manifestos on which they were elected. If a local community feels that a council administration has failed to act they can vote them out at the next election. Unfortunately, the Single Outcome Agreement continues the blurring of accountability between local and central government.

In negotiating its agreement with local authorities, the Scottish Government also signed up to a commitment that 'The Scottish Government will not undertake structural reform of local government during the term of this Parliament.' While this was perhaps understandable from a political point of

view, it is a pity that the Scottish Government ruled out structural reform. Fundamental reform is required to return power to local people and to bring about the improvements in the performance of our public services which we wish to see. The sooner this devolution of power takes place the better.

The policy recommendations outlined below set out a programme of fundamental reform of local government in Scotland. This programme reflects our principles of limited government, diversity and personal responsibility, while taking into account the experience of other countries and the views of councillors in Scotland who have been kind enough to respond to our survey. Future Reform Scotland reports will examine how these recommendations will shape improvements in the delivery of health, education and criminal justice services.

### Greater local autonomy

Fundamental reform should start from a recognition that *“local authorities are one of the main foundations of any democratic regime”* as stated in the European Charter of Local Self Government. This recognises both their role in providing effective administration and in encouraging participation in public affairs.

We would recommend a new constitutional relationship between the Scottish Government and local government set out clearly in a new piece of legislation. This should start from the premise that local authorities have responsibility for, and can take action in, any area unless specifically prohibited by a higher authority. This is the principle adopted in many European states and is the one that governs the relationship between the governments at Westminster and Holyrood. It would, therefore, provide a sensible basis for a new constitutional relationship.

This new legislation should enshrine the principle of subsidiarity. This principle asserts that tasks should be carried out at the lowest administrative level possible as a means of ensuring that decisions are taken as close as possible to the citizen. This would ensure that the Scottish Government only takes action where it has exclusive competence, while also being responsible for the setting of certain minimum standards and ensuring fairness in the allocation of resources.

The responsibilities of local government should be set out in the legislation, but should not set out how these requirements should be met leaving this to the discretion of local authorities themselves. Importantly, any additional responsibilities given to local authorities by the Scottish Government would require a change in legislation. If the Scottish Government set out that local government is mandated to carry out a new responsibility, then the grants paid to local authorities should be increased to take account of the change. However, the additional resource should not be ring fenced for the new responsibility. One way of doing this would be for central government to buy services from local government. This approach would enable the sweeping away of the whole panoply of targets, guidelines, directives and controls which currently direct the actions of councils and constrain their room for manoeuvre.

As a general rule, this would mean that responsibility for providing public services would be in the hands of local government free of central policy making and heavy-handed monitoring. How they provided these services would be up to them which would encourage diversity rather than uniformity. There is no one right way to deliver public services which is why central control is so damaging to new ideas and initiatives. This greater diversity encouraged by local provision would enable councils to experiment with different ways of providing services so that they can discover what works best for their area. Equally, local authorities will be able to learn from each others' experiences with this process driving up standards across the board.

We would also recommend that individual councils are given greater responsibility for their own elections within centrally-set parameters. This could include how many councillors should be elected and the voting system to be used. However, ward boundaries would have to be drawn up in conjunction with the Local Government Boundary Commission to ensure against gerrymandering.

Of course, one of the requirements placed on local authorities by legislation would be to publish clear and transparent information on their activities in order to ensure proper local accountability. The local electorate must be able to judge how their local council has performed when deciding how to vote. However, this does not require the extensive central audit and 'best value' regime currently in place. Instead, local authorities should be required to carry

out an audit, but be able to choose their own auditors in the same way as companies can. Again, this would enable a reduction in central bureaucracy.

Local people must also be able to appeal to a higher authority where statutory authority is infringed or there is corruption. The Scottish Government must ultimately be responsible for ensuring justice, although such appeals do not have to be to a minister. An alternative is an independent tribunal and these exist in other countries such as France.

### Greater financial responsibility

A new constitutional relationship between the Scottish Government and local government which is designed to entrench local autonomy requires a fundamental reassessment of the financial relationship between the two levels of government.

We would recommend a system in which local government is responsible for raising most of the money it spends, which means setting tax levels as well as retaining the subsequent revenues. This is essential if councils are to have greater autonomy and be more accountable to their local communities for the decisions they take.

The debate over local government finance has tended to focus on which tax is the most appropriate in order to raise local revenue. So we have gone from the rates to the poll tax to the council tax and the current argument as to whether this should be replaced by a local income tax. At the same time, we have moved from a business rate set and raised locally to one where the rate poundage is set nationally by the Scottish Government, raised locally but then handed over to the Scottish Government which redistributes it to councils. This means that the only tax revenues over which local authorities have control, i.e. the power to set the level and keep the revenue, are those arising from council tax. This accounts for a paltry 9% of the total income of councils in Scotland and even when sales, fees and charges are included the figure only increases to 19%.

Our aim should be that, over time, councils in Scotland raise at least 50% of their income from taxes where they set the level and then keep the resulting revenue. This would put Scottish councils on a par with other local authorities in Europe. The best way to achieve this aim is to move away from the situation

in which councils have discretion over only one form of taxation, as specified by the Scottish Government. Instead, over time, councils should be able to choose from a range of different taxes in raising their own revenues. Under the current powers of the Scottish Parliament we would recommend that Business Rates are returned to local government control. Just as we argued that there was little incentive for the Scottish Government to improve the economy if any increase in revenue as a result of faster economic growth is returned to Westminster, the same argument applies to business rates. There is little incentive for an individual council to develop the local economy if any increase in business rate revenue resulting from a stronger local economy is simply returned to Holyrood. Devolving business rates to local councils would restore the link between local economic development and higher revenues. It would give councils a real incentive to work with local businesses to improve the local economy as councils would benefit from the higher revenues generated.

We would also recommend that should a local income tax be introduced, it has to be set at a local level. In 'powers for growth' Reform Scotland called for Westminster to devolve financial powers to the Scottish Parliament. The Scottish Parliament in turn would then be able to give greater financial powers to local authorities.

Such a shift from a system in which most local revenue comes in the form of a grant from the Scottish Government to one in which it comes through local taxation requires a change in culture. There is no doubt that such a change in culture would be helped if the Scottish Government was itself responsible for raising more of its own revenue. This would enable it to offset the increase in local taxation with a reduction in taxes levied at the Scottish Government level.

Although most of the revenue of councils will come from their own locally-set taxes, some will still come in the form of a grant from the Scottish Government. Such grant should not be ring-fenced in any way. While the SNP Government has reduced the amount of ring-fenced funding, for which it should be applauded, over £1 billion is still distributed in this way. We should complete this process by removing the remaining ring-fenced funding, with all revenue coming in the form of a block grant to give local authorities discretion as to how that funding was used. The calculation of this block grant should be based on a clear and transparent formula based on population and specific needs.

## Diverse structure

Too often, the debate about how to reform local government becomes bogged down in arguments about the exact number of councils, where to draw particular boundaries and how many people councils should serve. However, this is not as fundamental as giving councils greater freedom and making them more accountable to their local communities.

There are many ideas about the perfect blueprint for local government in Scotland. However, it is unlikely such a model exists given the evidence presented in this report. Effective councils providing a wide range of services come in all shapes and sizes. The examination of local government in section three of this report illustrates that there is a huge variety of types of councils, even within countries and regions.

In Scotland, it may well be that a review of local government boundaries is required. There are certainly strong arguments for ensuring that councils reflect long-established community identities and this is not always the case with the present council boundaries. For example, the old burgh tier of local government existed in Scotland from the 12th Century until it was scrapped by the Local Government (Scotland) Act 1973 and burghs represented long established communities.

However, we should start from where we are with the existing 32 local authorities in Scotland being given greater control over their own affairs. This greater autonomy, and particularly financial responsibility, will give councils a far greater incentive to work together where that will enable a service to be provided more effectively and at lower cost. This voluntary approach based on a shared interest is likely to be more effective in encouraging the provision of shared services than efforts to engineer this from above.

Equally, there is plenty of room in Scotland for power to be devolved further. One of the key findings of our research was that Scotland's lowest executive tier of government is far more remote than that of other countries. For example, in countries such as Sweden, France and Norway local councils represent communities which are far smaller than Scotland's local authorities but are able to levy taxes and exercise control over vital local services including primary education, planning, recreation, local transport and community infrastructure.

We would recommend that, where there is a demand, local communities should be given the right to acquire such powers from existing local authorities. This recognises that the current network of community councils in Scotland is patchy with some working better than others. Many communities would not want to go down this route, at least not at this time, but those that do should be able to do so. A right enshrined in local government legislation would enable them to do this and create a process of decentralisation driven by the wishes of local people. This would be expressed in a local referendum in which a majority of residents in a local community would be sufficient to trigger the devolution of power along with the associated funding.

Local communities should not only have the ability to bring power closer to them, but also be free to decide the structure most appropriate for their area. There are many different and successful models for councils around the world. One is the elected Mayor, common in the USA and more recently introduced in London and other cities and towns in England. The advantage of having a directly-elected leader is that it provides a clear figurehead and so can strengthen accountability. As seen in the recent London Mayoral elections, it can also generate interest in a local government contest, even though the powers of the London Mayor are nothing like those of the Mayor of New York.

A directly-elected Mayor or Provost could well prove a popular and effective form of local government, particularly in the four main Scottish cities. Mayors could provide strong and effective leadership. This is particularly important for cities which, as centres of innovation, are vital drivers of economic development and progress. We would, therefore, recommend that the Scottish Government should organise referendums in Aberdeen, Glasgow, Dundee and Edinburgh to see if local residents would like their own directly-elected leader. A simple majority of those voting would be required to move to such a system.

Although this type of local government might seem most appropriate to cities, other local authority areas should also have the opportunity to adopt this form of local government. As in England, either a petition signed by 5% of voters in a local authority area or a resolution of the council would be all that was required to trigger a referendum. Again, a simple majority of those voting would bring about a change in the system.

In respect of their own internal operations, councils should be free to decide for themselves how to operate, for example whether to have a committee structure or a cabinet system. Consideration should also be given to allowing councils to set their own levels of pay. This would have the benefit of making councillors more accountable to their local electorate and they would then have to justify the amount they paid themselves to voters.

## Audit of quangos

The establishment of quangos, with members appointed by the government of the day, has been one of the main methods used to remove power from democratically elected local authorities. It has involved vital areas such as health and economic development. From the point of view of central government, quangos are preferable to local government because they are more likely to do what they are told. Local authorities have a democratic legitimacy denied to quangos and, as such, are far more likely to have their own ideas about the best approach for their area.

This process should be reversed in order to revitalise local government. We would recommend a full audit of all quangos in Scotland to see if their role is best provided by the public sector. If the quango is covering local matters responsibility should be passed to local authorities. Councils would then be able to decide for themselves how a service should be provided or if it should be provided directly by them at all. In certain cases, they may want to leave this to the voluntary or private sectors.

## Separate elections

Freeing up councils and making them more independent of central government is an essential means of increasing local accountability. Council administrations and individual councillors must justify their actions to the local electorate at election time. For this accountability to work effectively though, we would recommend that council elections are held on a separate day from Scottish Parliament elections. The objective should be to hold local elections on a set date every four years, between Scottish Parliament elections. This would allow local issues to take centre stage, instead of being overshadowed by the national campaign as at present. It would also help to avoid a repeat

of the shambles of the last Scottish and local elections, in part caused by confusion over the two different voting systems used for Scottish Parliament and local elections.

The usual argument for holding these elections on the same day is that it ensures a high turnout. This misses the point. Most people are turning out at present because of the Scottish Parliament election and their local vote is an afterthought. However, if significant power and financial responsibility is devolved to local authorities as we suggest, council elections suddenly become far more important. This would almost certainly ensure a decent turnout and everyone voting would be focussed on electing a council and the local issues involved. That is the best way to strengthen local democratic participation, rather than to use the Scottish Parliament elections as an artificial support.

## Conclusion

Reform Scotland believes that the recommendations outlined in this report could form the building blocks of a new relationship between central and local government in Scotland that had the potential to return local power to local people.

In Alex Salmond's "National Conversation with Scotland's Institutions" speech on 26 March 2008 he said of local government:

*"We believe that responsibility should sit at the level which best allows policy to be developed to take full account of local needs and circumstances, and conducted in an atmosphere of mutual respect."*

Reform Scotland believes that the policies set out in this report would deliver such a vision.

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## Appendices

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**Appendix A** Breakdown of local government expenditure

**Appendix B** Selection of councillors' responses to the question "*if you could make one change to the structure of local government in Scotland what would it be?*"

## Appendix A — Breakdown of local government expenditure<sup>44</sup>

	Employee costs	Operating costs	Total expenditure <sup>45</sup>	Total income	Net expenditure to be financed from grants, non-domestic rates, council taxes and balances	Percentage of total net expenditure
<b>Education</b>	3,155,282	1,375,709	4,596,832	344,394	4,252,438	40.00 Top of Form Bottom of Form
Pre-primary education	190,053	100,182	297,860	19,185	278,675	2.62
Primary education	1,196,471	465,007	1,683,226	104,306	1,578,920	14.85
Secondary education	1,332,618	525,106	1,911,982	131,310	1,780,672	16.75
Special education	293,028	191,335	463,962	24,069	439,893	4.14
Community Learning	98,333	61,683	169,165	38,745	130,420	1.23
Other non-school funding	44,779	32,396	70,637	26,779	43,858	0.41
<b>Cultural and related services</b>	282,790	395,968	708,023	116,414	591,609	5.56
Museums and galleries	24,515	19,266	47,525	6,073	41,452	0.39
Other cultural and heritage services	22,762	36,695	75,253	19,874	55,379	0.52
Library service	67,771	42,147	117,451	7,403	110,048	1.04
Tourism	3,084	14,016	23,054	3,915	19,139	0.18
Countryside recreation and management	16,246	11,310	30,176	5,116	25,060	0.24
Sport facilities (inc swimming pools and golf courses)	61,319	113,945	189,474	44,197	145,277	1.37
Community parks and open spaces	64,037	128,024	165,568	14,541	151,027	1.42
Other recreation and sport	23,056	30,565	59,522	15,295	44,227	0.42

<sup>44</sup> Scottish Government, "Local Government financial statistics 2006-07", February 2008

<sup>45</sup> Total expenditure includes employee costs; operating costs, transfer payments, revenue contributions to capital; support service costs and adjustment for inter account and inter authority transfers.

	Employee costs	Operating costs	Total expenditure <sup>45</sup>	Total income	Net expenditure to be financed from grants, non-domestic rates, council taxes and balances	Percentage of total net expenditure
Social work	1,160,264	1,533,773	2,994,486	782,926	2,211,560	20.80
Service Strategy	19,947	6,311	26,929	2,674	24,255	0.23
Children's Panel	127	2,034	2,669	91	2,578	0.02
Children and families	286,122	292,232	638,775	77,274	561,501	5.28
Older persons	519,864	687,642	1,352,412	326,396	1,026,016	9.65
Adults with physical or sensory disabilities	65,780	100,260	192,323	28,458	163,865	1.54
Adults with learning disabilities	149,480	314,223	503,005	179,897	323,108	3.04
Adults with mental health needs	37,394	73,789	130,461	57,817	72,644	0.68
Adults with additions/substance misuse	17,238	18,302	42,348	16,568	25,780	0.24
HIV/ AIDS	798	1,308	2,223	473	1,750	0.02
Service to asylum seekers and refugees	1,604	285	2,231	1,154	1,077	0.01
Criminal justice social work services	61,910	37,387	101,110	92,124	8,986	0.08
Police, fire and emergency planning	1,028,087	166,886	1,469,644	122,842	1,346,802	12.67
Crime management	419,818	68,032	486,240	32,931	453,309	4.26
Traffic management	69,600	11,620	81,134	5,773	75,361	0.71
Public order	34,604	5,573	40,323	5,105	35,218	0.33
Community safety	213,719	34,997	248,480	22,394	226,086	2.13
Call management	89,109	12,357	100,844	4,343	96,501	0.91
Police pensions			206,476	35,179	171,297	1.61
Common police services			9,157	-	9,157	0.09
Fire fighting and rescue	193,665	33,338	235,482	5,259	230,223	2.17
Community fire safety	6,582	933	8,860	313	8,547	0.08

	Employee costs	Operating costs	Total expenditure <sup>45</sup>	Total income	Net expenditure to be financed from grants, non-domestic rates, council taxes and balances	Percentage of total net expenditure
Fire fighters' pensions	.	.	51,602	11,540	40,062	0.38
Fire service emergency planning and civil protection	990	36	1,046	5	1,041	0.01
<b>Roads and transport</b>	140,574	506,312	625,341	193,491	431,850	4.06
Road construction	3,057	6,824	10,218	4,727	5,491	0.05
Winter maintenance	2,923	41,435	45,185	789	44,396	0.42
Structural, environmental & safety maintenance & repairs	44,614	207,998	241,422	33,945	207,477	1.95
Road lighting	10,091	58,855	64,324	3,300	61,024	0.57
School crossing patrols	11,723	3,856	15,902	31	15,871	0.15
Other network and traffic management	24,110	25,136	51,838	12,940	38,898	0.37
Parking	12,397	21,708	36,435	60,461	-24,026	-0.23
Non- LA public transport: Concessionary fares	1,307	11,854	10,740	400	10,340	0.10
Non- LA public transport: Support to operators and voluntary groups	.	.	-352	14,962	-15,314	-0.14
Non- LA public transport: Co-ordination	30,352	42,795	63,778	61,936	1,842	0.02
General fund contributions to trading services	.	85,851	85,851	.	85,851	0.81
<b>Environmental services</b>	251,991	410,365	670,308	168,122	502,186	4.72
Cemeterly, cremation and mortuary services	13,413	21,215	38,782	22,470	16,312	0.15
Coast protection	58	852	994	13	981	0.01
Flood defence and land drainage	641	4,861	5,688	87	5,601	0.05
Environmental Health	61,025	34,736	101,636	24,697	76,939	0.72
Trading Standards	18,403	9,780	30,081	2,889	27,192	0.26
Waste Collection	73,360	117,855	191,378	65,291	126,087	1.19

	Employee costs	Operating costs	Total expenditure <sup>45</sup>	Total income	Net expenditure to be financed from grants, non-domestic rates, council taxes and balances	Percentage of total net expenditure
Waste Disposal	28,464	164,330	194,069	45,835	148,234	1.39
Other waste management	56,627	56,736	107,680	6,840	100,840	0.95
<b>Planning and economic development</b>	<b>150,698</b>	<b>159,205</b>	<b>366,803</b>	<b>206,766</b>	<b>160,037</b>	<b>1.51</b>
Planning: Building control	27,271	16,770	48,872	51,089	-2,217	-0.02
Planning: Development control	29,166	8,994	46,283	30,798	15,485	0.15
Planning: Policy	24,815	16,734	51,780	9,467	42,313	0.40
Planning: Environmental initiatives	9,620	10,243	21,985	12,099	9,886	0.09
Economic development	59,826	106,464	197,883	103,313	94,570	0.89
<b>Central services</b>	<b>383,870</b>	<b>300,552</b>	<b>702,554</b>	<b>310,551</b>	<b>392,003</b>	<b>3.69</b>
Council tax collection	19,886	21,266	61,681	21,140	40,541	0.38
Council tax benefit administration	18,498	6,341	35,698	29,667	6,031	0.06
Non-domestic rates collection	3,150	2,452	10,130	3,544	6,586	0.06
Housing benefit administration	22,829	7,232	40,065	29,744	10,321	0.10
Registration of births, deaths and marriages	8,936	2,311	15,497	7,843	7,654	0.07
Emergency Planning (non Police or Fire)	2,504	1,662	4,811	559	4,252	0.04
District Courts	4,787	4,983	15,189	8,348	6,841	0.06
Licensing	5,516	5,415	14,502	12,494	2,008	0.02
Conducting Elections	226	601	2,188	224	1,964	0.02
Registration of electors	5,270	2,169	8,172	106	8,066	0.08
Council tax valuation	9,246	2,112	12,060	170	11,890	0.11
Non-domestic lands valuation	12,731	3,274	17,369	311	17,058	0.16
Local land charges	15	8	23	83	-60	0.00

	Employee costs	Operating costs	Total expenditure <sup>45</sup>	Total income	Net expenditure to be financed from grants, non-domestic rates, council taxes and balances	Percentage of total net expenditure
Non-road lighting	1,277	10,997	11,761	3,377	8,384	0.08
General grants, bequests and donations	207	8,128	12,995	126	12,869	0.12
Corporate and democratic core costs	21,021	40,706	158,741	4,893	153,848	1.45
Non-distributed costs	83,286	8,103	69,954	2,651	67,303	0.63
Other	164,485	172,792	211,718	185,271	26,447	0.25
General fund contributions to housing	.	607	607	.	607	0.01
General fund contribution to trading services	.	8,458	8,458	.	8,458	0.08
Interest on revenue balances	.	.	.	47,221	-47,221	-0.44
Loan Charges	.	.	782,002	.	782,002	7.35
All services	6,553,556	4,857,835	12,925,058	2,292,727	10,632,331	100.00

## Appendix B

Selection of councillors' responses to the question *"if you could make one change to the structure of local government in Scotland what would it be?"*

### Election system

- *"Return to one member per ward but elected by PR"*
- *"A longer term of office that would allow democratically elected members more time to allow particular projects that would be for the benefit of the community to have a greater chance of success"*
- *"Bring back smaller wards & first past the post elections which would restore local community links"*
- *"Reduce the number of MSPs and make them answerable to their local authorities with the money saved going to pay councillors full time salaries £35k minimum"*
- *"Education and training for councillors"*
- *"Remove the party political element"*
- *"Rotating Election of Councillors"*
- *"Half the number of councillors and double their pay"*
- *"Directly elected police supremo or commissioner"*
- *"Compulsory voting at all elections with improved postal voting"*
- *"Directly elected lord provosts for cities"*

### Number, boundaries and tiers of local authorities

- *"Reduce the number of local authorities. Also combine the roles of the Police and Fire Safety into one structure"*
- *"Bring back regional authorities"*
- *"Downsize local government into a smaller/flatter structure"*
- *"Reduce the number of "urban" and "geographically very small" local authorities"*
- *"Boundaries should be coterminous to service provision (especially for health and social care provision)"*
- *"More and smaller local authorities, to keep government closer to the people"*

## Responsibilities

- *“Incorporate all the functions of unelected quangos and provide LA s with their budgets”*
- *“More power and responsibility to community councils”*
- *“Devolve more power/control to local authorities, mindful of the fact that ‘one cap doesn’t fit all’”*
- *“A competence power accepted in law that local authorities raise their own finance and can do anything that they are not legislated not to do”*
- *“Make local government more local to engage the voting public, either beef up community councils to what were old town councils were or decentralise the existing councils to what were the old district councils to overcome apathy that has a sever hold in Scottish politics”*
- *“Devolve education to parents, giving them vouchers to choose the education for their children.”*
- *“Secure accommodation for children provided by Central Government”*

## Finance

- *“More money set and collected locally, rather than at Holyrood or Westminster”*
- *“Make local government more responsible for raising its own monies - preferably with a competitive element, i.e. through sales tax or variable business rates to inject competition into areas. A sales tax is particularly attractive to large city based local authorities as it would mean that tourist and visitors who come to visit, and spend, in the areas benefit the economy, rather than being a drain on resources because of extra pressure put on infrastructure”*
- *“Retention of local business rates”*

## Other

- *“MSPs should work closer with ward members to further projects and strategies in accordance with Single Outcome”*
- *“Speed up planning applications”*
- *“Do away with CoSLA and get down to direct discussions between Government and Councils.”*
- *“A fully standardised means of measuring performance delivery across Scottish councils”*
- *“Give councils greater powers to regulate the activities of utilities in their area.”*



