



OFFICIAL REPORT
AITHISG OIFIGEIL

Local Government and Communities Committee

Wednesday 22 November 2017

Session 5



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LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

28th Meeting 2017, Session 5

CONVENER

*Bob Doris (Glasgow Maryhill and Springburn) (SNP)

DEPUTY CONVENER

*Elaine Smith (Central Scotland) (Lab)

COMMITTEE MEMBERS

*Kenneth Gibson (Cunninghame North) (SNP)

*Jenny Gilruth (Mid Fife and Glenrothes) (SNP)

*Graham Simpson (Central Scotland) (Con)

*Alexander Stewart (Mid Scotland and Fife) (Con)

*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Vicki Bibby (Convention of Scottish Local Authorities)

Keith Brown (Cabinet Secretary for Economy, Jobs and Fair Work)

Paul Dowie (Improvement Service)

Oonagh Gil (Scottish Government)

Councillor Gail Macgregor (Convention of Scottish Local Authorities)

Neil MacLennan (Scotland Office)

Lord Duncan of Springbank (United Kingdom Government)

Morag Watt (Scottish Government)

CLERK TO THE COMMITTEE

Jane Williams

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Local Government and Communities Committee

Wednesday 22 November 2017

[The Convener opened the meeting at 09:45]

City Region Deals

The Convener (Bob Doris): Good morning everyone, and welcome to the 28th meeting of the Local Government and Communities Committee in 2017. I remind everyone present to turn off mobile phones. As meeting papers are provided in digital format, members may use tablets during the meeting. I am glad to see that we have a full house today: all members are present.

In agenda item 1, the committee will take evidence in its inquiry into city region deals. I welcome Keith Brown, who is the Cabinet Secretary for Economy, Jobs and Fair Work; Oonagh Gil, who is the deputy director in enterprise and cities, and Morag Watt, who is the head of region and city partnerships team, both in the Scottish Government; Lord Duncan of Springbank, who is the United Kingdom Government Parliamentary Under-Secretary of State for Scotland; and Neil MacLennan, who is head of city deals and local government at the Scotland Office. You are all most welcome.

Before we started the meeting, we were observing that it can sometimes be challenging to get the Scottish and United Kingdom Governments scheduled to appear at committees at the same time. We see this as an encouraging step in relation to our city region deals inquiry, and we thank everyone present for making it happen. I understand that the cabinet secretary and Lord Duncan have opening statements to make. We will be delighted to hear those now.

Keith Brown (Cabinet Secretary for Economy, Jobs and Fair Work): Thank you very much, convener. Ian Duncan and I appear together on many platforms, including the Scottish business growth scheme and various conferences, not least of which are those on city deals. We are delighted to be here. Ian Duncan reminded me that I danced at his wedding recently, although I cannot remember dancing with him, which is what he said.

We are here to talk about the city region deals. The Government believes that strengthening Scotland's economy so that it benefits everybody in Scotland is the very definition of inclusive growth; for us it is front and centre of what we do.

City region deals are one of the key economic levers: 83 per cent—that is 4.5 million people—of Scotland's population live in the areas that are covered by existing or planned city region deals. According to the latest figures, from 2015, that same area equates to 86 per cent of Scotland's total gross value added and 2.2 million jobs, which is 85 per cent of all Scottish jobs.

The Scottish Government is the biggest funder of city region deals in Scotland, having made commitments that are worth over £1 billion to date. The investments that we are making in city region deals will benefit Scotland as a whole by creating tens of thousands of jobs and upskilling labour markets, but they can do much more than that. They are based on proposals that have been developed by regional partners, harnessing local intelligence to identify what is needed to unlock inclusive growth. They can also act to galvanise key partners to come together to drive regional economies in ways that go well beyond the investments that they deliver. Crucially for us they focus on delivering inclusive economic growth.

Of course, our policy approach should not be, and is not, just about cities and regions although they are very important, as the figures that I mentioned show. For our economy and all of our people to flourish we need inclusive economic growth in all of Scotland, especially outside the traditional growth areas. Inclusive growth, by definition, is about opportunities for everybody. That is why the enterprise and skills review made it clear that we are expanding our regional economic policy to go beyond city deals to support the creation of regional partnerships across the country. As I told the Economy, Jobs and Fair Work Committee last week, I have agreed to establish a centre for regional inclusive growth, which will provide a platform to share local and national data, analysis and evaluations. It will also help to support regional partnerships and city and region deals.

I am very pleased to be here and I am delighted that the committee is taking an interest in city deals at this early stage. I look forward to answering questions.

Lord Duncan of Springbank (United Kingdom Government): Thank you very much. It is a pleasure working alongside Keith Brown, because the only way we can deliver the city deals is through co-operation. It is important that the committee is beginning to examine what is going on, because it is not just the two Governments that are co-operating: local authorities across Scotland are, too. That collaborative form of working, which is at the heart of the city region deals, is perhaps a model for how we might move in other areas.

Let me give you some background, which might be useful for the committee before we begin to

delve into the questions. The UK Government launched the city deals programme in December 2011 with the publication of the “Unlocking growth in cities” white paper, which set out our ambition to transfer powers and decision making to local leaders and businesses to support economic growth. Behind the city deals is our recognition that they are catalysts for the cities and their wider hinterland. It is important to stress that. Although there is often a city at the heart of the deal, it is not exclusively about the city. We are considering implementing new governance arrangements across the UK, certainly south of the border, for developing economic growth strategies that I believe will dovetail very well with the Scottish Government’s ambition for inclusive growth and its increasing capacity to manage devolved funding and spending.

The city deal programme in Scotland started in 2014, some three years after the city deals were launched in England. We now have four deals agreed. Three more are in negotiation and we expect progress to be made on them in due course. The UK Government has so far committed just over £1 billion to that programme. Our ambition is very simple: it is to support balanced and sustainable economic growth and to improve the health of local, regional and national economies. As I said at the beginning, the deals should be a means by which our Governments can co-operate and collaborate; after all, we are governing the same people and both Governments have the same objective at heart, which is to deliver better lives for the people who live in those areas. Scotland has particular challenges, and we know that the Scottish Government’s own figures reflect those. The city deals will be very useful in, I hope, transforming the landscape, as we understand it.

The UK Government has moved forward in a number of other areas that we hope will complement the city region deals approach. They include the industrial strategy, about which we should hear some more information in the next week or so. I could explain that in greater detail, but I think that I will wait to be prompted by the questions.

The Convener: I thank both of you for your opening statements. A theme that has run through the evidence that we have taken so far has been how well managed the first city region deal—the Glasgow one—was at the outset in terms of getting the balance right between economic growth and inclusive growth. Councillor Susan Aitken, who chairs the Glasgow city region deal cabinet, talked about that when she came to this committee. We heard academics in another evidence session talking about the possible need to retrofit earlier deals to align them better with inclusive growth. I have to declare an interest

because that may be a real benefit to my constituency: the Glasgow city region deal might, for the north of Glasgow in areas such as Hamiltonhill and Ruchill and the canal network, boost regeneration in an area that has long been deprived.

That leads to a question about the purpose of city region deals. Are they about inclusive growth, but not necessarily about maximising economic growth? Regenerating and taking forward communities that need it, but where there is not a lot of economic activity, might create less economic activity than a boost to an area in which there is already significant economic activity.

I am keen to understand the balance between maximising economic growth and inclusive growth, and where the two Governments sit in relation to that. That will determine what projects will proceed both in the city region deals that might be retrofitted and those that are still in the pipeline. Are there tensions between inclusive growth and maximising economic growth?

Keith Brown: On the first part of your question, the Glasgow city region deal is unlike the other deals. The Scottish Government was asked, at the very last minute, to contribute £0.5 billion to it. There was no prior discussion, so our ability to emphasise or prioritise such things as inclusive growth was limited. It is true to say that city deals have matured since then; they no longer resemble a straightforward list of infrastructure projects, and there is more involvement with the private sector and more emphasis on transformational growth.

On retrofitting, as you called it, the Glasgow city region deal, we have said—I think that this is also true for Ian Duncan, although obviously he will want to speak for himself—that we are willing to consider that within certain constraints, including that an area should not be disadvantaged by, say, councils suddenly finding projects moving out of the area with no replacement. That is important. The quantum of funding is not going to change: the £1 billion that is behind the city region deals is not going to change. That should be understood.

Beyond that, it is true that city region deals have—to use an overworked phrase—been on a journey. They have matured over time, and if councils and partners want to look at the deals again they should do so. We would like to see the extent to which they do so, although it is important to make the point that city deals are characterised by the initiative for them coming from the local authorities and other partners. It is not the Scottish Government’s intention nor, I think, is it the UK Government’s intention, to go behind that and come up with ideas and change deals. We want, however, to see inclusive growth being prioritised in changes to city region deals.

There can be tension, as it might be characterised, between economic growth and inclusive growth. In theory, there could be 20 per cent economic growth but only 20 per cent of people enjoy its benefits. It has to be decided whether that is what is wanted. It is not, for us. We want growth, but we want everybody to have the chance to access the benefits of that growth. That will be a priority for us and it is fundamental to our economic strategy. Scotland is getting something of an international reputation for inclusive growth; we want inclusive growth to be recognised—we are seeing this—in the city deal proposals that are coming forward. There is certainly a balance to be struck and we have come down in favour of inclusive growth.

Lord Duncan: In lots of ways, the Glasgow city region deal benefited from being first in the queue, but it faced challenges as well, which the subsequent city deals have been able to benefit from significantly. The recent Edinburgh and south-east Scotland city region deal, for example, was able to benefit from a wider audit that demonstrated that a particular focus could deliver particular outcomes. I have met Susan Aitken to speak about that and we recognise that the deal can be examined. Keith Brown is exactly right. We do not want to find that in the eight local authorities the money begins to move from one to another and there is disagreement within the consortium that creates tension.

It is important to stress that projects still must grow organically from the local level. It is not the job of either the Scottish Government or the UK Government to impose projects or to determine what projects are included. Rather, it is to make sure that when projects are developed they will deliver against our specific objectives. The UK Government's objective is economic growth and the Scottish Government's objective is inclusive growth.

Is there a tension between the two of them? Keith Brown rightly pointed out that there is. One of the challenges that we have is that we must operate in our respective spaces—the devolved space and the reserved space. That difference was probably less well defined for the Glasgow deal than it became later; that has been part of the evolution of the deals as they have progressed. The key thing now is to ensure the right outcome for the Glasgow deal local authorities in a wider sense; that the outcome delivers against the objectives of both Governments to see real growth; and that the people of Glasgow experience and benefit from that growth and can recognise the value of the Governments' and, of course, the local authorities' investment.

As deals have evolved, we have seen more private investment in other growth deals and city

deals. I think there will be opportunities to re-examine the deals. Retrofitting will depend much more on what we are told by the partners than on what we would seek to instruct.

The Convener: That is helpful in setting the context for this evidence session. It is reasonable to say that the evidence that we heard about the Glasgow experience was critical analysis rather than criticism. This is about how people learn from the journey.

I was a regional MSP at the time of the Glasgow city region deal coming into existence and opposed one of the projects—the Cathkin relief road, which I think came in at £18 million or £19 million. The road was built: it is there and it is working. I still think that it was a waste of money and had nothing to do with inclusive growth. I am not even sure how it was to do with economic growth, but I accept that the local authorities wished it to be one of the projects. I was representing that area and I disagreed, but local democracy prevailed. I would say that it was not value for money, but the project was allowed to proceed. Who is doing work on value for money, measuring outcomes and auditing the process by which projects are procured and delivered?

10:00

Keith Brown: We now have a board that includes the UK and Scottish Governments to do oversight. What was called an assurance framework was put in place for the Glasgow deal. As the convener rightly said, it was not for us to go in and say that we did not think a project would offer value for money, and what could be done otherwise if the partners had different priorities. Both Governments insist on proper business cases that stack up, and that the integrity of projects is overseen.

There is also an element of risk: it is in the nature of infrastructure projects that they overrun—more outwith Scotland than within it, I would say. We underspent, or made a saving of, £45 million on the Queensferry crossing. Infrastructure projects, being what they are, can have cost and time overruns. Those risks are carried by the local authorities. If the project to which the convener referred that cost £18 million or £19 million had ended up costing £29 million, that would have been for the local authority to pick up. Both Governments have made it clear that we are not there to bail out overruns or infrastructure projects that do not come in on time or on budget. We are involved at the earlier stage, through the assurance framework that I mentioned, and we have a monitoring board. Over and above that, as the committee knows—you will see it being replicated in subsequent deals—for the Glasgow deal, the Glasgow city region deal cabinet has

been established for the same purpose. However, the quantum of money is the quantum of money. A project going over on costs in the Edinburgh city region deal will either be at the expense of the council and its partners, or at the expense of their ability to carry out all the projects that they would like to do.

We take a close interest. We have an assurance framework and we have a responsibility for the public money that is being spent, which we discharge through the joint board that I mentioned, and also through the assurance framework.

Lord Duncan: We are living through this right now in the deals that are evolving. The Tay cities deal and the Stirling and Clackmannanshire deal, which have projects developing from the grass roots up, still need to meet the criteria to satisfy our respective treasuries that they will deliver. Those criteria are clearly agreed in order that we can try to determine the gross value added of a project to see whether it will fulfil what we anticipated when we signed off the heads of terms and the overall deal. One of the challenges in some elements of the Glasgow deal that were about infrastructure was that it is not always easy to see the multiplier or to feel the warmth of the new road or recognise what it delivers to the area.

The first deal in some respects reflected not quite a wish list from local authorities, but recognition of where work that had not been done could be done, now that money was available: there was a backlog of things on which they wanted it to be spent. We have refined the city deal approach to recognise that it is not just meant to fulfil existing obligations, but is new investment that delivers against clear objectives that are, when they are explained, understood and welcomed by people in the region, so that there is no resentment about money being spent on one project over another.

As Keith Brown rightly said, in the Glasgow deal we fixed the budget that we can invest, so challenges that come thereafter will have to be met from within that quantum. That said, we will do all that we can through the monitoring process and through working closely with the participants to ensure that issues are identified early and addressed in order to prevent overruns or money not delivering against expectations.

The Convener: Lord Duncan, you mentioned the gross value added of projects. To double check, what would happen if the UK Government did not think that the GVA of a city region deal project was sufficient, but the local authorities said, "We know that another project would give a greater GVA, but this is the one that we want for overall inclusive growth"? In terms of the local democratic decision making—I know that we are

talking theoretically—what would the UK Government's position be on that?

Lord Duncan: We can only operate, and have now become much more focused on operating, in the reserved space. Our key criterion for examining that is the GVA. However, at no point in our discussions with local authorities have we sought to move anything other than what we believe we can fund; we are very clear about where we believe we can operate and what we believe we can deliver. Importantly, and this is where some of the elements have to interweave, there may be elements of co-operation between the two Governments, where our spend complements the inclusive growth ambition of the Scottish Government and we step into traditionally devolved areas in order to make that happen. It is not our ambition in any way to rule out projects on that basis; it is that we have a suite of criteria that we must fulfil.

The Convener: Do you think that the money should lose its identity once it is put into the pot of cash for a city region deal? We should not be talking about a UK pound or a Scottish Government pound; we should be talking about a city region deal pound, with the local authorities being the drivers that determine locally, with agreed criteria, what projects to invest in. We have heard before about devolved investment and reserved investment. This is strategic city region deal investment. Should the money not lose its identity? If local authorities want to maximise inclusive growth, perhaps at the expense of GVA, would you be willing to consider tweaking the criteria on that at a UK level?

Lord Duncan: No, it is unlikely that the criteria would be tweaked at a UK level on that basis, I am afraid. The Treasury sets the criteria that we have to work within. The reason why there is clear division is that the Treasury would argue that, through various other means—the block grant and so on—it is already supporting the Scottish Government in its investment in the on-going projects. We have to be careful that the money is assessed according to the criteria that we must work within.

The Convener: I do not want to create an artificial division in relation to that answer, which was very definite—it was very black and white. The committee will have to consider all the evidence that we get in the round about city region deals. Based on the recommendations of our report, would you consider making that case to the UK Government? The Treasury is there to be lobbied and influenced and cajoled to see a bigger picture if it would be for the better management of city region deals. You gave a fairly absolutist answer about not changing the criteria, because

you do not think the Treasury would move. Is that something that you would be willing to consider?

Lord Duncan: I suppose that I would have to flip around and ask another question. I am being very clear to avoid there being any doubt about that. By all means, if you write the report, I will happily pass it on to the Treasury. I suspect, however, that its criteria will not be changed on that basis because it sees the money as spending in the reserved space, which it is able to do, versus the Scottish Government's spend in the devolved space, which it should do. If the UK Government ends up spending in the devolved space, it would argue that it is spending twice. By all means, I am not seeking to in any way influence the report that you write and I am very happy to take it back to the UK Government and to the Treasury, but I am setting out clearly what I suspect will be the outcome of that.

The Convener: I am but one person on the committee and we will have to wait and see what the committee recommends, but that is very clear, Lord Duncan.

Graham Simpson (Central Scotland) (Con): I want to follow up on what you were both saying about the Glasgow city deal. Mr Brown, I was interested that you feel that other deals have learned from—shall we say?—the mistakes of the Glasgow deal. Lord Duncan, you mentioned particular projects in the Glasgow city deal that can cause local resentment, and that is certainly the case. The convener mentioned one that caused local resentment, and I am aware of others in the vicinity that will cause local resentment. There are road projects for which there appears to be no obvious case: there are £85 million-worth of road projects in East Kilbride that we have not seen a business case for, but I guess that they fit the description that you gave of projects that have sat around for years and which councils have seen the opportunity to spend money on even though, frankly, nobody can see the benefit from doing so. Does either of you think that changes can be made to the Glasgow deal? Will the Governments ask for changes to be made? Mr Brown, could you be more explicit about what you think the lessons are from the Glasgow deal for other deals?

Keith Brown: The first lesson is that, if you are going to have a deal involving the Scottish Government, you should talk to the Scottish Government first. I think that agreeing a deal and then coming to the Scottish Government with a demand for money is not the best way to get the best deal. However, it is also true to say that the Glasgow deal was a deal done in the early stages of city deals generally and they have moved on. I am not characterising it as a mistake, but I think that they have moved on. You will have seen in Aberdeen and Inverness more involvement from

the private sector at an earlier stage. Aberdeen in particular has had a very large contribution from the private sector. There is also a more rounded approach that can lead to a transformational effect on the local economy, with much more emphasis on things such as broadband, skills and housing as factors in economic growth. I think that city deals have matured over time.

The Scottish Government will not be asking for changes in the Glasgow city deal. We will listen to and be receptive to proposals for change. As I mentioned earlier, if the partners to that deal want to make changes within the constraints that I mentioned and within the quantum, making sure that different areas are not disadvantaged by the changes, the Governments—Ian Duncan and I have had conversations about this—are agreed that we will be receptive to listening to proposals for change, but it is not for us to go in and propose changes. That is not how we see it. If, when the Glasgow city deal was struck, the Scottish Government had then said, "No, you are not doing this," the local authorities would have said, with some justification, "We are saying that these are our priorities." We cannot fund all the priorities. We pick and choose which ones we can support and it has to be done within our budget.

To go back to the convener's point that the money is now city deal money, in effect it is, but we have to have accountability for the money that we spend, so that is why we have a continuing monitoring role. It is true that the city region deals are over a long period of time and things can change, so I think that we are duty bound to be receptive to that, but we should not be the ones to initiate that change. It should come from the partners locally.

Lord Duncan: I would certainly echo that. The UK Government's spend inside the city deal has focused on the innovation and growth area. If I list where it is, you will see why the convener's point about moving the money around becomes more problematic. For innovation and growth, there are three particular projects: supporting the development of an imaging centre of excellence as part of the £64 million investment in stratified medicine at the new south Glasgow hospitals campus; supporting the development of a £4 million MediCity Scotland facility; and supporting the development of a new £4 million centre for business incubation and development in the Tontine building in Glasgow's merchant city. In the areas where we have put money, there is a very clear function—not quite ring fencing—so that we can track the money that moves through. The earlier projects seem more difficult as we look back on them now, because we have learned lessons.

I do not think that either Government has been able to dictate to the local authorities what they were to pursue, but they had to recognise that both Governments had a suite of criteria that they had to meet and obligations that they had to fulfil. The projects that emerged were those that best fit the criteria. Several projects did not make it that far and did not secure funding in that particular round. Those that did are those that we collectively believed we could support, and we did so. We continue to monitor to make sure that they deliver on time and as per expectation.

Graham Simpson: There is a feeling among communities, which we have heard strongly in evidence, that they have not been involved in city deals, and not just in Glasgow. Things are done to communities but not with them or by them. Think about the roads projects that I have mentioned, some of which have not even been built yet. Those are projects that people do not want, do not see any value in and are not involved in but which are pushed on them by the partners in the city deal. That is surely not the right way to do it. You should be involving communities right from the start and involving businesses. Mr Brown, you mentioned involving the private sector. That has come through in evidence as well. Certainly, businesses in Glasgow do not feel involved. Could you pick up on that point about the involvement of communities, which should be right at the start?

10:15

Keith Brown: I agree with that and you are seeing much more of that. For example, in the Stirling and Clackmannanshire deal there has been substantial involvement, certainly in the early stages, from Stirling Council and latterly from Clackmannanshire Council. The fundamental point here is that this is the Local Government and Communities Committee and we are talking about local government, which has its own mandate. If a local authority comes forward and says, "This is what we want to do," it is not for the Scottish Government or the UK Government, whatever its point of view, to look beyond that, to second-guess the local authority and to say no. Of course, the Scottish Government was not involved in the early stages, but I did not hear a howl of protest from one or other partner saying they were being forced to do this by a collective. These projects were presented to both Governments as the priorities and it will be for local authorities to justify the extent to which they have or have not engaged. To be fair, we are more alive to that and the local authorities that are now involved in city deals are more alive to the need for public engagement. I think that that is true, but it is for those who are coming forward with proposals to make sure that they consult the public. That is where it should happen.

Lord Duncan: The Stirling and Clackmannanshire city deal is perhaps the best evidence that we have now of the wider engagement by the local authorities into the community. Part of the challenge is that such a large sum of money is being spent by all the partners and you would hope that the people in the cities and regions would welcome it and recognise what it is delivering, which should be transformative. It is a little dispiriting to then discover that perhaps some of the money—which is of great quantity—is not being appreciated. I do not think that either of us is particularly pleased to hear that. That being said, Keith Brown was right to point out that the projects that emerged and were funded—not all projects were funded; several fell by the wayside—were those that were pushed and advanced by the consortium of local authorities. It does become a challenge.

I would argue that there is no one-size-fits-all approach to the city deals. They do not look alike; the cities themselves are not alike in character. The Aberdeen city deal, for example, is very closely allied with what I would call the sector approach; it very clearly dovetailed with the oil and gas sector. That worked very well, but it was not how the Glasgow deal evolved. If you look at the evolution of the Edinburgh deal, you see that it is much more about the university sector driving forward elements of it. If you look at the emerging elements of the Tay valley deal, you see that it is different again. Each of them takes a different approach.

Our hope would be that those putting forward the projects have not just secured the right level of commitment from the council, although that ultimately determines what happens, but, as local representatives, engaged widely with the communities that are affected to ensure that there is buy-in. The last thing we would want is billions to be spent and nobody to be pleased. That would seem to be the worst of all possible worlds.

The Convener: Do you want to follow up on that, Mr Simpson?

Graham Simpson: I will just make a point and then we can move on to other questions. The point is that no council is going to deliver what Mr Brown described as a "howl of protest" if you are throwing money at them, but the people on the ground might not like it. The councils will love it, but the people might not.

Keith Brown: That is the nub of the question, but it is a question for local authorities. We would be very quickly accused of centralisation if we were to say, "This project should not go ahead because we believe that you have insufficient support." Your basic point is true. If, in a city deal over 20 years, a project—say, one of the projects that is to be done 10 years in—does not enjoy

support at the start and its relevance is not obvious to people, it is unlikely to gain support. That is why I have said—and I think Ian Duncan agrees with this point—that we are willing to listen to proposals for change, but it is the local authority that has to be the key body here.

The Convener: To be fair and for the record, I say that I had a reply from the Cabinet Secretary for Finance back in the day, John Swinney, to the reservations that I raised about the project that I referred to earlier. The reply that I had was that it was for local authorities to prioritise and bring forward the project. I put that on the record because I had an involvement at the time.

Jenny Gilruth (Mid Fife and Glenrothes) (SNP): Good morning. I was interested in Lord Duncan's comment that the commitment from the council will ultimately be the determinant of these projects.

I want to drill down on a specific constituency question. Cabinet secretary, you will be aware that there is a huge campaign for the Levenmouth rail link in my constituency. I have spoken about it in Parliament regularly, and I recently led a members' business debate on the subject, at which the Minister for Transport and the Islands was present. You said in your opening comments that we need to grow outside the traditional growth areas. You will know that Glenrothes and Leven fall into those gaps, because Fife is part of the Edinburgh and south-east Scotland city region deal.

In an evidence session two weeks ago, David Ross, who is the co-council leader in Fife, said:

"the clear understanding that we got from Government officials was that the project"—

by which he meant the Levenmouth rail link—

"would not meet the specific criteria they were looking for in the city deal."—[*Official Report, Local Government and Communities Committee*, 8 November; c 32.]

He subsequently wrote to the committee to update his comments. In that letter, he said:

"In discussions between Scottish civil servants and council officers it was made clear to us that the full project would not score highly under the criteria on which the Scottish Government would consider the bid."

I would like to ask a specific question, the answer to which I think I already know. Did the Scottish Government or the UK Government at any time block local authorities from specific bids?

Keith Brown: You mentioned the process that led up to the deal, in which Government officials were involved. I was with Councillor Ross at the signing of the deal, and I have no recollection of any objections being raised to the deal that was proposed. I can absolutely guarantee that it is very problematic to judge what the eventual cost and

timeline of rail projects will be. The nearest rail project to Levenmouth is the new Stirling-Alloa-Kincardine line in my constituency. That project started in 2008 with a bid from me, as the then local authority leader. Everyone said that it was a small line, so it would not take much investment. It was estimated that it would cost £6 million for the passenger service and £13 million for the extension for freight to Kincardine, but it ended up costing £85 million and it was not completed for a number of years afterwards.

As far as the process is concerned, the Levenmouth rail link was not part of the final proposal from Fife Council. As you will know, the whole of the Fife Council area will benefit from two city deals, because it will also be part of the Tay cities deal. Perhaps the officials who were involved in the process might want to answer your question, because they are sitting here very quietly.

The Convener: Of course. Who would like to respond?

Oonagh Gil (Scottish Government): I am happy to do so. As the committee is aware and has heard from a number of people already, the process for considering proposals within a city deal is one that starts with the local authorities coming together with their key regional partners to bring forward propositions. During that process, there are some discussions about exploring the detail, the readiness of the proposals and the constraints that may exist with each proposition. Those discussions continue and the regional partners evolve their asks through that process. That was the case with this proposition. You have heard about how it evolved and was taken forward.

Jenny Gilruth: Did those involved in the Edinburgh city region deal ask local authorities to prioritise projects? David Ross is insinuating that it was the scoring that was used by Scottish Government officials that was used to prioritise projects, and I want to find out whether that was the case. Were local authorities asked to rank projects in any priority order?

Oonagh Gil: We always talk to local authorities and invite them to identify the priorities within their deal proposals. You will be well aware that the aspirations for regional deals can be extremely large, and the Edinburgh proposal grew considerably during the discussion process. Throughout those discussions, we invite the partners to be clear about their collective priorities for the region and to articulate their reasoning behind that, including the benefits that they think that those projects will bring across the region and where they will sit within the region deal.

Jenny Gilruth: Having listened to the Edinburgh city region deal representatives, I struggle to point to projects that will have a direct benefit in my constituency.

I have a specific question for the cabinet secretary about the wider benefit. I hope that you do not mind my asking you it. In his letter to the committee, David Ross said that he believed that the Scottish Government was providing around £120 million of funding for the Sheriffhall junction, which he said represented around 40 per cent of the Government's investment in the city region deal. He went on to say:

"it was not a project that was submitted by the local authorities as part of the City Region Deal and as a consequence of the Scottish Government including this project in the overall funding, it may have been that other projects that had been prioritised by the local authorities were not funded."

Do you think that that is true?

Keith Brown: I think that the Sheriffhall junction will have been a priority for a number of the local authorities involved.

To be honest, I do not think that it is the way to go for local authorities that freely and happily signed that city deal agreement to start picking it apart. As you know, the possibility of funding the Levenmouth rail link is—quite rightly—being taken forward through other means. You mentioned the members' business debate on the issue.

We are trying to work with local authorities, but everyone freely signed that city deal agreement. Before we got to that stage, we said, "This is what we're thinking of doing. What do you think?", and they all said that they wanted it. I do not think that it is fair to now go back to it and say that they did not like particular parts of it. We have tried to act in good faith.

As Oonagh Gil said, at the outset of the Edinburgh city deal, the City of Edinburgh Council came to me and John Swinney and said that it did not want any money. At the start, the council said that it wanted a city deal, but that it was not looking for money, because it could fund the deal through other means. After that, the deal grew up in increments of, I think, £0.25 billion at a time—it continually went higher and higher. That has been a feature of most city deals. Therefore, we have to prioritise, and it is obvious that local authorities and their partners, in putting forward their proposals, will have to prioritise. However, Fife Council and the council leader freely signed up to the Edinburgh and south-east Scotland city region deal.

The Convener: For clarity, I should point out that Councillor David Ross, who gave evidence two weeks ago, wrote to me on 20 November. That is what the previous exchange was about.

That letter is publicly available on our committee page on the Scottish Parliament website. If there is anything in it that any of the witnesses here would like to correspond with us in relation to, feel free to do that. To be fair to Councillor Ross, his full reply is on the Scottish Parliament website, and people who are interested in the issue should go and look at that.

Alexander Stewart (Mid Scotland and Fife) (Con): Good morning. We have already touched on the potential benefits that such deals can bring to communities and cities, as well as the tensions that continue to exist.

I want to ask about areas that, because of their location, lie outwith city regions and which find themselves between a rock and a hard place, because their needs are not being met. How can we build a resilient local economy in such areas? How can we attempt to do that for places that feel that they have been excluded in some way from the process? Do you believe that there are sufficient support mechanisms to provide such communities with support in the future?

Keith Brown: The Scottish Government has made a commitment that every area and every community in Scotland should benefit from a deal. To put it diplomatically, we are still working through that process. It will be interesting to hear Ian Duncan's view on the issue. We have areas such as Moray, Argyll, Falkirk, the islands and Dumfries and Galloway that would not be covered by a city region deal. You are quite right to say that their local economies require support as well. We have said that we are willing to look at those. Ayrshire is a good example. We have said for quite some time that we are supportive of an Ayrshire growth deal. The Ayrshire councils approached both Governments and asked for Government support. It is not for me to say what the UK Government's current position is, but it did not want to commit to a growth deal in that sense. I think that Andrew Dunlop said at the time that whatever the UK Government might want to do in the Ayrshire space would be done through the industrial strategy rather than through a city region deal.

The Scottish Government will go ahead and do this: we will provide support for, and look at deals for, every part of Scotland. It would be useful to know at this stage whether the UK Government wants to take part in that process and whether it intends that we should work collaboratively in the way that we have done on city deals, or whether we will work separately. Either approach is perfectly legitimate, but we have to know which one is to be taken; we also have to try to get the priorities worked out. For example, there is a proposal for a borderlands deal, yet half of the borderlands—or one of the two local authorities

concerned—has already had a deal. Falkirk, Argyll and Moray have not had a deal.

10:30

Now is a good time to sort this out. We might get some clarity on the UK Government's approach even in this week of the budget. Things have changed over the period of the city deals, so the initial 50:50 requirement is less of a determinant now. If we are to work together to maximise the benefit of a deal in a given area, it would be useful to find out from the UK Government on what basis that work will be done. Is it to be done in the reserved space? Both Governments have experienced situations in which local authorities and partners seem to find it harder to come up with proposals in the reserved space, with the result that we get a preponderance of devolved projects, especially when it comes to infrastructure.

If we are to move forward together on this, it would be really useful to have a common understanding of the basis on which we will do so. If we are not going to do that, we should just crack on. However, I accept Mr Stewart's fundamental point, which is that every part of Scotland deserves to get the support that the city region deals have provided.

Lord Duncan: I am right on board with that. The plan is that we should be able to do that. I hope that we can, but Keith Brown and I need to speak a lot more about how we move forward. Clearly, Scotland is more than its cities and the cities' hinterlands. We are talking about a large number of areas. This afternoon, my team will be off to Argyll and Bute to begin early exploratory discussions to see what is possible there. I have had meetings with each of the island local authorities to find out what their world looks like and to get an understanding of what the deals might look like.

Today's budget might give a shout out to this. I cannot confirm that, because I have no idea whether what we have asked for will emerge, but the point is that we need to commit to the space beyond the cities. That should mean that the mosaic of Scotland is all coloured in. Every part of Scotland should receive benefits irrespective of whether it is in an urban area, near an urban area or there is no urban at all in that area. We are very much committed to doing that.

In some respects, I do not envy Keith Brown his role, because whenever you speak to a local authority, it wants pretty much everything that Keith has and very little of what the UK Government would normally spend money on. That can be a big challenge, because it is not easy when a local authority says, "We want 100 per

cent spend in the devolved area, but we can't think of anything to ask the UK Government for." One of our challenges can be to encourage authorities to identify whether areas can be developed in such a way that would allow the UK Government to act and to spend. Trying to find a 50:50 balance in areas where, broadly, 100 per cent of the ask relates to devolved matters is not that straightforward and it has caused tangles in the past. Going forward, Keith Brown and I will need to sit down and work out how to do that. We do not want to be tangling each other up in complexities, nor do we want to overpromise, because we are working within budgets that are ever tightening. Equally, we want to make sure that no part of Scotland is left behind and that all can see prospects coming, albeit that they might be that little bit further away.

Alexander Stewart: As you have identified, we are a nation of cities but we are also a nation of towns. We have different aspects, and those aspects have different aspirations with regard to what they want to achieve. The role of the Scottish Government and the UK Government is vitally important to ensure that everybody feels that they are being supported.

Communities feel that they have not always been included, and the cabinet secretary has indicated that local government should be the mechanism that deals with that. However, in some of the involvement that has taken place, communities have been left outside the process because the bigger, more ambitious projects that councils might have identified are the ones that they want to happen, and the projects that are in the hinterland or might come later on in the 20-year programme are the ones that might need to happen. At the moment, as I said, you need to identify that. I hope that we see a joined-up approach in the future to ensure that we have that balance, so that we do not end up with people feeling that they are excluded or left behind in this whole process.

The Convener: I think that that might be more of a comment than a question.

Lord Duncan, you said that we will have to wait to see what the Chancellor of the Exchequer says in his budget speech today with regard to whether your asks have been delivered. Does that mean that you have had a key ask in relation to city region deals in Scotland?

Lord Duncan: We are hoping to see priorities set. At the moment, we have the quantum to take forward the city deals that we have outlined. We are hoping now to be able to move forward.

In order to deliver the growth deals in Ayrshire, Moray, Falkirk and elsewhere, we have asked—we are always asking—to get money; it is a

question of when we get it. I would like to be able to answer your question in a more declarative way but I cannot.

The Convener: That is a very eloquent way of just saying yes in answer to my question, Lord Duncan.

Lord Duncan: You might well say that—

The Convener: You mentioned issues with local authorities being able to find that 50:50 split between the Scottish Government and the UK Government because of issues around reserved areas and devolved areas, and the desire to maximise the opportunities to secure finance opportunities from both Governments. Would that not strengthen the case—should you be prepared to make it, along with this committee, if that is what we decide—that, at some point, money should lose not its traceability but its identity and that we should have a more collective and holistic view of how we invest in the city region deals rather than viewing the relevant areas as devolved or reserved? You have identified in your evidence that there are issues with some local authorities identifying what the UK Government investment would look like in their areas.

Lord Duncan: I am afraid that the answer is still the same as it was before. When we identify projects in the reserved space, they are clearly delineated and we are able to justify the spend when we approach the Treasury to deliver against that. What we are unable to do, however, is to commit spending into what in effect would be the devolved space. The Treasury would argue that, through the block grant, it is already providing funding and will not provide double funding. That might seem like an unhelpful statement but, at the same time, that is the breakdown of how we spend the money and how we account for it.

The Convener: It is not unhelpful; it is accurate in relation to the Treasury position. However, of course, the Scotland Office might have a position that involves maximising spend in Scotland for the benefit of Scotland, and that approach might be different from that which is taken in accordance with the current Treasury criteria under which the Scotland Office is applying city deal spend. I am trying to create a space where there could be some kind of change. I think that the cabinet secretary wanted to come in on that.

Keith Brown: Ian Duncan and I do not agree on everything. The UK Government double spends. For example, with regard to the £1.5 billion that is going to Northern Ireland, there is no requirement for matched funding for city deals for Northern Ireland. That £1.5 billion is nearly entirely in the devolved space, so of course the UK Government double spends.

The scope for the Scotland Office's ask of the Treasury is pretty substantial. We could do far more with many of these projects if we were to have a pro rata equivalent of £1.5 billion to spend on devolved issues. It is possible to do that.

The point about reserved issues is a really important one. I do not find it difficult to think of things in the reserved space that would be very useful for local authorities—there is a lot that can be done on broadband, social security and a number of other reserved issues. It should not be beyond them to come forward with those ideas. If they do not, the quantum that they get is reduced because, if there is to be a 50:50 split, and you have identified only reserved projects, you will only get so much.

The point was made earlier, perhaps by the convener, that the process of city deals itself should lead to a dynamic—that is not currently there—which leads people to think about transformational change, not all of which has to be funded by Governments and others. The idea is that the city deals lead to a mindset that makes people think more broadly in that regard.

Lord Duncan: One of the challenges is that the projects that local authorities explore inevitably tend to be those that involve traditional spend by local authorities, which tend to fall into Keith Brown's space more than mine. However, once you can break through that mould and recognise where the UK Government can spend, you can see substantial benefits.

For example, both Governments recognised the value of the oil and gas technology centre in Aberdeen and were able to commit to that very quickly. Of all the city deals, the Aberdeen one is perhaps the one that has hit the ground running and has moved forward most quickly.

With regard to the Northern Ireland issue, the important thing to say is that there are definitely challenges that we will have to face, but none of them are centred on how the money itself will ultimately be spent. It is not our ambition to place ourselves in a comparable situation in relation to Scotland. At the moment, the situation is that we will be spending £1 billion outside the Barnett consequential. We will spend considerably more to deliver against each of the existing city deals, and we will continue to spend more as we move from city deals to growth deals. A substantial amount of money will be spent in that regard, but the situation in Northern Ireland is different.

The Convener: I think that that is a significant political debate, so we will leave it for the moment and move to our next line of questioning.

Kenneth Gibson (Cunninghame North) (SNP): Lord Duncan, you said a few minutes ago that you think that no part of Scotland should be

left behind. However, I represent one of the five Ayrshire constituencies and I feel that we are being left behind. Certainly, in terms of economic growth, per capita income and so on, Ayrshire is already behind, but there appears to be nothing on the horizon. Last week, Patrick Wiggins, the director of the Ayrshire growth deal appeared before the committee—I am sure that you will have read his evidence. He said:

“There is commitment from the Scottish Government, but we are still pursuing formal commitment from the United Kingdom Government.”

He went on to say:

“we are making good progress with the Scottish Government and have had quite a lot of engagement with UK Government officials, but we really need a green light from the Treasury”.—[*Official Report, Local Government and Communities Committee*, 15 November 2017; c 1.]

I am wondering why there has been such a delay with the Ayrshire deal. Edinburgh, which is much more prosperous, has a deal and, from my perspective, it looks as if the gap between the Lothians and Ayrshire will only grow. What impact do you feel that the delay will have on a place such as Ayrshire?

Lord Duncan: There is not a delay, in that sense, because the commitment in the first instance between the two Governments was for the city deals. They are moving forward and we will deliver each of those within the schedule that we set. I can say that I hope that, by the end of today, you will be in a better place than you are right now.

Kenneth Gibson: I am very pleased to hear that, and I certainly hope that we are. The chancellor made a lot of good noises about this in January, which led to an expectation that an announcement would be made, but no announcement was made. If there is to be a successful implementation of the Ayrshire growth deal, we really need to know when it is going to commence, what it is going to consist of and how it is going to be delivered. I think that there are real concerns that that is not going to happen.

What do you feel the impact of displacement is on Ayrshire and other areas in Scotland while other deals are going ahead? We have already heard that the Glasgow deal started in July 2014. Even if Ayrshire is given the green light, it might be a number of months before it starts on the ground. There is a real concern that skilled workers are being drawn into areas of Scotland where the deals are and that investment is being drawn into Glasgow and Edinburgh that might otherwise go to Ayrshire, Moray, Galloway or wherever. What concerns do you and the cabinet secretary have about this uneven development of deals?

Lord Duncan: The deals are not short term. We do not expect all the elements of the Glasgow city deal to be completed even in the first 15 years. We are looking at a much longer timescale. I would have thought that, within five years, if we are able to move forward from the city deals to the growth deals, they will all be developing across Scotland over the same sort of time period. Of course, some will develop faster than others, because certain things can be delivered more quickly than others, but I think that you will begin to see all of them moving forward over that same 15 or 20-year period. That means that the displacement effect that you mention should not take place.

The UK commitment to the Glasgow deal was £0.5 billion. The spend is still on schedule but, so far, it is quite modest from our side—it is only about £40 million. Again, that means that the element of distortion that you are concerned about has not taken place. I hope that, as we move forward—again, through collaboration with the Scottish Government and local authorities—you will see all of the deals delivering within the next 10 years, albeit each at its own pace, which will be determined by the consortium that pulled it together.

The deals should be almost the gift that keeps on giving—if that does not sound an odd way of putting it—because they will deliver over such a lengthy period of time.

Keith Brown: Kenneth Gibson is right in that we cannot stand still and wait for a deal to be done. We have been active in the space, but perhaps not in the way that we would have been if we had a joined-up growth deal in the way that we have described. For example, 800 modern apprenticeships have been created in North Ayrshire alone over the past four years and we have supported Spirit AeroSystems near Prestwick airport with research and development investment to try to bolster employment there.

We recently announced a £5.3 million investment in the HALO project in Kilmarnock, which is a good example of what has been asked about. That project could have been one in relation to which the two Governments worked together. Instead, there was an early announcement from the UK Government, subject to due diligence—I have not seen an announcement like that before—and we announced the £5.3 million. I am encouraged by Ian Duncan’s suggestion that we are to get better news or more confirmation of the UK Government’s approach later on today, as that will lead to a collaborative joint approach between the UK Government and the Scottish Government. Last year, when the Ayrshire councils came to me with their request for a growth deal, which I agreed

to, I said that we would do it jointly with the UK Government. Since then, the councils and I have been asking for the UK Government to take that approach.

In direct response to Kenneth Gibson's question, I agree that we have to support the Ayrshires as best we can. We should crack on and do a growth deal. If both Governments can agree, we will maximise the benefit that we can get from that and achieve something for the whole of Ayrshire. In the meantime, it is worth pointing out that the councils have taken the initiative by forming the Ayrshire economic partnership, which is an arrangement that is unique in Scotland. That is an encouraging sign of councils working together and overcoming some of the traditional demarcations for their mutual benefit.

10:45

Kenneth Gibson: Cabinet secretary, you have touched a couple of times on deals being imposed, rather than agreed. What impact does that have? If you are suddenly told that there is a deal, such as with the initial one in Glasgow or the HALO project, what impact does that have? Does that have a distortive effect on the way in which the Scottish Government looks at the deals and spends its capital?

Keith Brown: That is not the case with Ayrshire, because the Ayrshire councils had quite a lot of discussion with us and the UK Government about the things that they wanted to be developed. The earliest discussion of a growth deal included the HALO project, so that is not being imposed. However, it is being done in a disjointed way, which perhaps undermines the full potential that we could realise if we did it in a more co-ordinated way. It may be that, notwithstanding what has been said, the UK Government decides that it wants to provide support but not in conjunction with the Scottish Government. I do not think that that is optimal, but it is fine, as long as we know that.

Thus far, Ayrshire has not suffered from that—a deal has not been imposed. Obviously, the Spirit AeroSystems deal was done at the request of that company for the wider benefit of the economy and for the apprenticeships, as part of our larger programme, but all the councils spoke up for the HALO project in relation to a growth deal, so nothing has been imposed. However, the Glasgow deal was a different kettle of fish, as you know.

Lord Duncan: It is worth stressing that the Scottish Government will of course have obligations outside the city deals as part of its ongoing relationship with local government, so elements of spend and collaboration will rightly sit outside the deals. I think that we can move

forward. The ambition that I set out today is that we see the whole of Scotland covered by extensive city deals, or indeed local deals or island deals, depending on how they fit together.

On the HALO project, the UK Government moved quickly because it was seeking to secure private investment, which relied on early movement. The important thing is that there will be no imposition of a deal on Ayrshire. It is not in the gift of either Government to achieve that and nor would it work. As with all the other deals, it will have to emerge from organic development of initiatives, buy-in from local communities and a determination by the local authorities that the outcome is exactly what the people and those authorities want. At this point, all that we can do is to ensure that the green light can be given to the initiative so that we can then begin the process of determining our commitment levels to that. Where we see that we have funding in place, we are able to move forward.

Kenneth Gibson: One thing about the deals that makes them attractive is the ability to lever in private funding. For example, the Glasgow deal is looking to lever in some £3.3 billion over 20 years. Although we are only three years in, so we are still in the early stages, are we seeing that leverage? Are we seeing more or less leverage than we expected or is it on track?

Keith Brown: For Glasgow, I think that the estimated contribution from the private sector is £3.3 billion. However, it is probably too early to say what it will be. In relation to the Aberdeen city deal, there is £400 million of investment just in Aberdeen harbour, and that is following a process and is on track.

It is worth addressing the point about private sector investment, as we have struggled with that. With Edinburgh, both Governments had to go back and say that there had to be more engagement with the private sector. I know that that approach sounds a bit less substantial than saying, "Here's a cheque," but it can be effective if councils think about things in a genuinely transformative way. The ability to make a deal much more than it would otherwise be is dependent on things such as the private sector getting involved. I should say that the Tay cities and Stirling deals have been quite effective at talking to partners in the private sector and the third sector.

I do not know whether the officials want to talk about any early indications that we have on the private sector contribution to the Glasgow deal. The claim of £3.3 billion of investment is a very substantial one. As I said, we were involved in that deal only towards the end.

Oonagh Gil: The committee has already considered the monitoring of and reporting on city

deals, and the group that the cabinet secretary referred to earlier is certainly looking at that. It is early days for demonstrating commitment and delivery from private sector partners across the city deals, but there is evidence that those are forthcoming across the deals. They are perhaps most evident in the Aberdeen and Aberdeenshire city deal, where the private sector is a partner around the table. We will certainly continue to investigate and report on that as we move forward.

The Convener: Morag, do you want to come in?

Morag Watt (Scottish Government): No.

The Convener: That is fine. I am not always good at identifying when people want to add something, so I was just checking.

Lord Duncan: Aberdeen is a useful example of an area where there have seen significant commitments from other partners beyond what the UK and Scottish Governments have committed. Obviously, the local authorities have put in money, but there is substantial investment from the Robert Gordon University and the University of Aberdeen. We have seen that in the early stages of the Stirling and Clackmannanshire deal and we are seeing it in the Tay valley deal. Beyond that, more moneys will be unlocked as the wider private sector sees the benefit of the initiatives.

That goes back to how the deals are generated. At the genesis, or at the earliest possible stage, there needs to be consideration of how projects can unlock moneys that might be out there in the private sector. That will not always be possible, because in certain areas that level of private sector investment will not be available but, where it can be done, the multiplier effect is significant. The output of that is useful, because it brings a certain coherence to the overall drive behind the initiatives.

The Convener: Time is catching up with us, and two members still have questions.

Elaine Smith (Central Scotland) (Lab): I want to ask Lord Duncan about what might be viewed as unintended consequences, just to explore a bit further what we have been talking about. Obviously, the policy was originally introduced to create a northern powerhouse and to balance England's economy, and I want to ask about exactly how that works in Scotland and whether there might be unintended consequences. Alexander Stewart mentioned town centres. Scotland is a country of towns but, at the moment, we have decline in some of our town centres. For example, in Lanarkshire, Coatbridge and Airdrie town centres have been in decline for a number of years. Are you confident that there is no risk that the city economies will expand to the detriment and displacement of town economies and

therefore cause further damage to those town centres?

Lord Duncan: I am fairly confident that that will not happen. If, for example, the money in Glasgow, which is a substantial sum, was spent in one year, you would be absolutely right, because the bonanza of that spend in one year would result in a distorting effect. However, if the money is spent over 25 years, while at the same time there are other growth deals in the areas that we are talking about, all overlapping and with their own timeframes, the risk of distortion is cancelled out.

There will always be elements where significant spend may draw things in, depending on what the spend is on. There is no question but that the development in the oil and gas sector in Aberdeen will draw in people from the sector to the area. That will certainly be a distorting element as that development begins to evolve but, as the Tay cities deal becomes a real delivered prospect and evolves over a 10 and 15-year period, you will see that, although the two deals did not start at the same time, within five years, they will both be moving forward against their overall ambitions.

Elaine Smith: So you are confident that there is no fundamental flaw in the policy because of the way that it was created and that, over the longer timeframe, there will not be detriment to the hinterland, as you call it.

Lord Duncan: I am being careful with the words that I use. When I talk about the cities, often the city deals themselves have city and region elements, so that is their hinterland.

I am fairly confident that there should not be a distortion. I think that there would be if both Governments spent a vast sum of money very quickly, but we are not proposing to do that. In some instances, the spend will be over a generation, or longer, and it will therefore begin to be married up. Some projects will move faster. In the Aberdeen city deal, the Oil & Gas Technology Centre moved very quickly. Other elements will, by their nature, be determined to be on a slower spend level. A number of the projects in the Glasgow city deal are paced over a much longer timescale.

Both Governments are conscious of those elements, so it would be unfair for me to dismiss them as not worthy of consideration, but I do not think that they are a fundamental flaw; they are just a recognised element of the evolving city deal landscape.

As Mr Stewart pointed out, we cannot leave behind any of the non-urban-hearted areas, and they will move forward at a distinct pace. Importantly, we hope that, by the end of the decade, we will see all of the parts of Scotland—and, one would argue, northern England—

experiencing exactly the same approach, so that there is a city landscape and an evolving growth landscape that should be transformative.

The Convener: Cabinet secretary, do you want to add to that?

Keith Brown: Yes, just briefly, because I think that Elaine Smith hits on an important point. It is worth pointing out that the city region deals will cover a large number of towns as well as cities, but we think that it is right that all parts of Scotland should benefit.

There is a fear about what will happen if the UK Government takes forward the issue in the context of the industrial strategy, although we do not have clarity on that yet. As was mentioned, the strategy was born of the northern powerhouse idea, and that was about the imbalance in the UK economy, especially in relation to northern England, which is an important issue. Some of the early signs that we are seeing with the first and second waves of funding are that they seem to be reinforcing that inequality because, as was said, it is sometimes easier to fund things where dynamic economic activity is already happening.

As recently as last week, I made the point to Greg Clark, the Secretary of State for Business, Energy and Industrial Strategy, that, if the strategy is going to succeed it has to tackle that issue and it cannot just reflect it. A lower percentage of bids have come forward and been approved from Scotland, Northern Ireland, Wales and northern England. If the approach simply reinforces current inequality, it will not have served its purpose. I do not think that that is the UK Government's purpose and, to be fair to Greg Clark, he said that it absolutely is not. However, if that is to be achieved, the pursuit of the industrial strategy—if that is the means by which the UK Government proceeds—will have to actively help those areas to come forward with bids and make sure that economic activity takes place.

Elaine Smith: That is helpful.

The Convener: Lord Duncan, I apologise, but I am going to ask for brevity. I understand that you might want to outline in more detail how the industrial strategy sits beside inclusive growth and all those things that the cabinet secretary has talked about. Perhaps you can correspond with us in relation to that.

Lord Duncan: I can be very brief. The simple answer is that the industrial strategy is not driving forward the growth deals. The truth of that can be seen if we look at some of the deals that are emerging in England. For example, the Cornish deal is not in any way determined by the growth strategy. Inevitably, there will be overlap, just as there will be with some of the existing city deals,

but they are not linked and the strategy is not a driving force.

The Convener: That is helpful.

Andy Wightman (Lothian) (Green): I have a brief question before my substantive question. Mr Duncan, you talked about a move from city deals to growth deals. For clarity, do you mean that the ones that are filling in the current gaps will be called growth deals because there are no cities in them, or do you mean that growth deals are a new way of doing business that may well come forward in a phase 2 in areas that already have city deals?

Lord Duncan: No. I am being very clear. Broadly, we have run out of cities. I am sorry—I was not trying to be clever. I just meant that, broadly, we will have completed all the bits of Scotland that have an urban conurbation in them and that, if we are moving forward with the same initiative and idea, we really need to call the deals something different.

Andy Wightman: So it is filling in the gaps—

Lord Duncan: It is perhaps more a matter of the nomenclature than anything else. I am not trying to be clever. I hope that Keith Brown and I will sit down again to consider matters. The initial approach was to look at city deals. That was the original plan, but it is clear that that has evolved, and we need to recognise—this has been confirmed by a number of the participants—that Scotland is not just about cities. We need to find a way of taking forward the initiative and the idea and to recognise that, by their nature, growth deals will be different, because they will not have a large urban conurbation at their heart.

11:00

Andy Wightman: That is helpful. Thanks.

On my substantive point, the Glasgow city region deal is obviously the first one, and I understand that its five-year gateway review is coming up shortly. City region deals are for 20 or 25 years. You talk about their being generational. In that time, Governments will change, big things will happen, such as leaving the European Union, and new policies will emerge, such as industrial strategies. How can deals be monitored in a sensible way as, in 10 or 15 years' time, we will be in a very different place and possibly have very different governance arrangements in the UK?

Lord Duncan: The deals are designed to have governance structures at their heart. That is part of the tripartite agreement. Irrespective of what political party is in office north or south of the border or whether a local authority changes hands, the means by which we are able to measure are agreed, and the governance and review structures are all part of the on-going

process and the commitment. I suppose that it is not impossible that one partner might have different views—we see this already with the Glasgow deal—about how the deal might be refined or adjusted, but the structures that are in place for monitoring and oversight are not really up for adjustment. They are broadly the fixed elements, but the quantum itself is also fixed. In the case of the Glasgow situation, if there is determination from the local authority level to re-examine elements, I think that both Keith Brown and I would be responsive to that, but we are not seeking to change the deal. The structures need to be trustworthy so that everyone is able to operate on a fair and level playing field.

Andy Wightman: It is fair to say that there are not many governance structures in such areas that extend for 20 years and are not underpinned by primary statutes, for example. That is very unusual. How confident are you that, if we see problems arising in, for example, an Edinburgh or Aberdeen deal in 10 years' time, the governance structure will be adequate to deal with them with the original players having long gone and the policy context perhaps being very different?

Lord Duncan: If we put in place the right structures, they should be able to weather the political changes that come along. I am aware that there are, of course, entirely unknown unknowns that could change the entire landscape, but we can work only on the basis of constructing robust governance and auditing. That is all that we can do at the outset, and we have done that with each of the deals so far. They are underpinned by the commitments of our respective Governments and the local authorities. It is recognised, of course, that the parties in power in any of those particular tiers need not be the same, but the commitment should remain the same, because that is how large-scale projects are built over long periods of time.

The Convener: Cabinet secretary, without speculating on unknown unknowns, are you confident that the structures will prevail irrespective of political change or new thinking in relation to economic and industrial strategies?

Keith Brown: I am not sure that the assurance that Andy Wightman seeks can be achieved by putting in infrastructure. It is much more to do with how structures are baked in at the start. Members have made points about popular support for deals, engagement with communities, and local authorities having an inclusive approach among all the different parties. I cannot guarantee this, but I think that that would help to obviate swings in policy and priorities that would make previously agreed projects non-sustainable.

Nothing is certain in life. Local authorities change hands and Governments change. Both

Governments put into their long-term budget projections a commitment to the city deals. Changes will not be done on a whim. We made a long-term commitment, but things can and will change, and sometimes it is good to reflect those changes in our priorities. However, the more there is agreement on a deal at the start and consensus on and inclusion and involvement in it, the more chance it will have of sustaining unforeseen events, such as even Brexit.

The Convener: We are out of time, but I want to ensure that we have a balance of evidence. I would like to mop up one or two things before we close the evidence session. Although the questions might be substantive, brief observations and perhaps correspondence with the committee clerks with more information would be very helpful.

Our deputy convener, Elaine Smith, made a very interesting point about how towns fare in relation to city region deals. We hoped to ask a question about how the city region deals or growth deals take account of equalities and sustainability, which are relevant. It is not just about geographical equalities; it is about different sections of the community. What checks and balances—equality impact assessments, for example—are there within projects that go through city region deals? What due diligence in that area happens with city region deals?

Keith Brown: The officials can confirm that we are undertaking equality impact assessments on the city region deals that we are taking forward. That did not happen in the early days. I mentioned the circumstances in relation to Glasgow, for example. We have our priorities. Inclusive growth and increasing equality are very important, but we do not want to continually overlay our criteria on top of what local authorities come forward with. This is an important forum to put the message out there for those who seek to do city deals that we will prioritise things such as inclusive growth and improving equality, but local authorities also have a role to play.

Lord Duncan: Broadly speaking, we are in a comparable situation. As a Government, we have a number of determining factors around the equalities agenda, such as fairness and dignity, but we also recognise that the constructors of the projects have much of the responsibility to build those elements in with the bricks. Throughout the process, we seek assurances that that is indeed the case. That is not to say that we rely solely on that. We also need to audit to ensure that they are delivering against both Governments' expectations in the wider area.

The Convener: Members have hinted in their lines of questioning at the issue of funding over a long period. The Glasgow city region deal will have a gateway review, but what will happen if the

other deals fail to meet outcomes in an agreed framework? What will happen to that guaranteed long-term funding? Will it no longer be guaranteed? What is plan B?

Keith Brown: May I return quickly to the point about equalities? As you are aware, local authorities have statutory responsibilities on equalities, so they have to factor that in. That is probably how we would ensure that what is coming forward meets the equality impact assessments.

If something were to fail, I think that there would be a pretty big message that people should pause and take stock of where they are going. We have not had a failure in the Glasgow city deal, but we have had a demand to have things looked at again. It seems right to be able to do that, so the process has to allow for that.

The gateways are there for a purpose: to make sure that their project, if it is a project, is sustainable and that it meets objective criteria. It is right that that process is there and it will force a rethink if something fails, so whether the change is to the nature or the extent of the project, or to something else, it is right that we should have that check and that balance in the process.

The Convener: Should local authorities build risk assessments into their city region deals on the basis of what their contingency would be if they did not meet a gateway review or achieve an outcome but they wished to proceed with a project nevertheless? Please be brief, cabinet secretary.

Keith Brown: I think that everybody who is involved in the process should be undertaking their own risk assessments, and local authorities are no different.

Lord Duncan: Absolutely. We should not be waiting for five years to discover that something has gone wrong, so the on-going auditing and assessment should be enough to safeguard against failure. That has to be at the heart of the process.

If a problem can be anticipated, or is emerging, it is incumbent on those who are leading the project to work very carefully to avoid failure, because at no point does either Government wish significant investment to be lost because a project could not fulfil its initial obligations. That being said, all participants must look at their risk register to make sure that they are prepared for any eventuality. That needs to be built in with the same elements that we touched on a moment ago in discussing equality. They need to be the component parts of the overarching projects and they need to be monitored carefully to ensure that they do not drift.

There is an evolution in this situation, which we are seeing in Glasgow already. The local authorities think that some of these areas should be re-examined. That perhaps goes back to what Mr Wightman was talking about. We are not deaf to that. It is a question of how we do that sensitively, so that in trying to solve one part of an equation we do not end up contorting the other part.

The Convener: I have a final question, which is probably more relevant to the cabinet secretary. It is a substantive question at the very end of an evidence session, so perhaps you could respond briefly and come back to us with a more detailed answer if you think that it is required.

Scotland is like a big jigsaw at the moment. We are plugging the city region deals and growth deals, and there are questions about bits that have been missed out or have come late to the table. We have asked questions on that, but given that there will be a focus on regional partnerships within the forthcoming enterprise and skills review, is the time now ripe for a more co-ordinated Scotland-wide regional economic strategy and monitoring programme? Is there the opportunity to better plug in different parts of Scotland so that local authorities can feed in to what that national economic strategy might be? How does the Scottish Government see that going forward?

Keith Brown: That is a very good question, which it would be useful to follow up in writing. My immediate thoughts are that we have sought to do just that through the enterprise and skills review with the establishment of the strategic board. We have that at a national level. At a local level, I think that what Ayrshire, for example, is doing with the economic partnership that it has established reflects its priorities and a way of working with the other players in Scotland. We are open to the idea of bringing together skills and local economic development in just the way that you describe. We are involved in that process. The enterprise and skills review probably had to happen first.

The city region deals have happened relatively organically and I do not think that that is a bad thing, but as a number of committee members have said, there is what has been called a jigsaw approach. We have had a little more clarity today from the UK Government. It is news to me that the industrial strategy is not to be used as part of the growth deals—they are called growth deals only because Ayrshire termed itself as a growth deal and Moray has done the same. We are not insisting on that terminology, which has come from the local authorities. That is an important point. There is something organic in city deals, which I think makes them sustainable if they are properly reflective of local communities.

We want to co-ordinate and to ensure that each part of the jigsaw puzzle knows what is happening elsewhere, but I think that we also have to allow for an element of dynamism, organic growth and local initiative.

The Convener: That is helpful. I think that it is reasonable to bring in Lord Duncan at this point.

Lord Duncan: I want to make a very brief comment, as helpful clarification for Keith Brown. The industrial strategy will overlap with elements of the growth deals and the city deals but, to be very clear, it will not be the driver of them.

The Convener: I thank all our witnesses for their efforts. We are delighted to hear that there appears to have been movement today by the chancellor on city region or growth deals. I like to think that the chancellor is, of course, watching this committee's work on that, and that Lord Duncan and the chancellor—and, indeed, the Scottish Government—will remain open-minded on the committee's reporting and recommendations.

11:12

Meeting suspended.

11:17

On resuming—

Draft Budget Scrutiny 2018-19

The Convener: Under agenda item 2, the committee will take evidence on the Scottish draft budget for 2018-19. I welcome Councillor Gail Macgregor, the spokesperson for resources, and Vicki Bibby, the chief officer, local government finance, from the Convention of Scottish Local Authorities, and Paul Dowie, director of shared services, from the Improvement Service. We have a couple of opening statements, the first of which is from Councillor Macgregor.

Councillor Gail Macgregor (Convention of Scottish Local Authorities): Thank you very much, Bob. Graham Simpson assured me that you are a kind bunch and that you will be gentle with me because I am giving evidence for the first time. I will hold him to that.

Thank you for inviting me along to give evidence in the run-up to the budget. Obviously, it is a difficult time for local authorities and the issue is of great importance to me not only in my role as the COSLA resources spokesperson but as a councillor and, most important, as a citizen and a member of the public. It is essential that we recognise the vital services that local government provides to communities right across Scotland. Many of you in this room have been councillors and have been at the hard end, so you will understand the challenges that we face.

We have produced a document entitled "Fair Funding for Essential Services", and the key message that we set out in our written evidence, which I think you have a copy of, is wider lobbying around this year's spending review. We are here to champion local services and, I hope, gain some support from you for our joint work with local government and the Scottish Government. I very much welcome the discussion today and will offer any information and evidence that I can. I am quite new to my role, so I may defer to Vicki Bibby on occasion when the discussion gets technical. She will keep me right.

We recognise the tight financial environment that we are in—we will get the details of the Scottish budget later today, once the chancellor has made his statement—but, if we are serious about tackling inequalities in Scotland and promoting inclusive growth, we must have a properly resourced local government that delivers the essential services that we have set out in our document.

There are big challenges ahead. As I say, we must all work together, but we face pay inflation and ever-increasing demand for services.

Reduced funding is a reality—we know that. Restrictions on local taxation are still an issue for local government, and how we tackle that and remain sustainable will be a massive challenge. The problem is exacerbated in the short term by one-year budgeting. Gone are the good old days of two and three-year budgets, and one of the big challenges that we have now is in working from year to year. I welcome today's discussions in the hope that 2018-19 will address some of the issues that I have raised.

Paul Dowie (Improvement Service): Thank you for the welcome and the opportunity to participate. In the written evidence that we have provided, we echo a lot of what councils and COSLA have said in their submissions. As part of this conversation, we will draw on a range of resources that show how local government is responding and the type of things that it is doing.

There is scope for further improvement and innovation. A number of councils have highlighted their work particularly on the digital side and how we might prosper in a digital world, in terms of internal and external self-service and how we can engage with communities differently and make best use of the assets that we have. In their submissions, people refer to how sustainable those approaches are. Although the Improvement Service believes that there is an opportunity for service redesign and transformation, that will require leadership, capacity and people and investment.

The past five years have seen a significant flattening of structures and a broadening of management portfolios, which has caused issues around sustainability and resilience to arise particularly in unprotected and corporate services. That is highlighted in a number of submissions.

Local government has collaborated in the creation of shared capacity through the digital office, work on the roads collaboration, the northern alliance and things like that. However, all those collaborations take time to lead and to put in place, and they require up-front investment. That can be hard to find when short-term deficits have to be met and budgets have to be balanced.

We have highlighted that, alongside scope for improvement and innovation, we are trying to get to a position where local government has true flexibility and—as has been highlighted by the commission on strengthening local democracy in Scotland—a range of additional fiscal capabilities so that we can have truly local choices.

The Convener: Thank you for those opening statements. Our first question is from Graham Simpson.

Graham Simpson: Thanks for coming. Local government has, for many years, complained that

it does not get enough money from central Government. This year, you are arguing that you need a revenue increase of £545 million just to stand still. Can you explain what that figure is based on?

Councillor Macgregor: As you know, local government feels that it has been the poor cousin in the public sector arena. Over the past few years, with budget cuts, we have reached a pressure point. The reality of the £500 million that is required just to stand still is encapsulated in the fact that the inflation rate is 3 per cent and the fact that we are finding it increasingly difficult to deliver demand-led services with the budget that we have and the pressures that come with that. Vicki Bibby might be able to give you a more technical answer, but the main factors are inflation and the additional demand for services, such as care at home, childcare and suchlike, that we are having to provide. If we do not get additional funding for those services, we are going to be in a very difficult position.

The Convener: Does Vicki Bibby want to add to that?

Vicki Bibby (Convention of Scottish Local Authorities): Yes. I will explain how the £545 million is made up. As councillor Macgregor says, over half of it—just under £300 million—is based on inflation and £250 million of it is based on demand. We have worked closely with the Improvement Service, the economists and the statisticians to look at trend data and have built up a substantial piece of forecasting work that we have worked on with directors of finance. That model has been in place since 2012, when COSLA worked on the strategic finance review group model that produced the gap. We have been updating that every year to highlight the continuing demand for services.

I do not think that we are calling for an extra £500 million explicitly; the purpose of our submission is to highlight the fact that we would require an extra £500 million just to continue to deliver the services that local government is delivering at the moment. It is a recognition, just as a starting point, that local authorities have that budget gap to address through efficiencies and transformation.

The Convener: Does Paul Dowie you wish to add anything?

Paul Dowie: No.

Graham Simpson: I am a little bit confused by that. You are saying that you want no more cuts to the revenue settlement. However, in order to have no more cuts—for example, to stand still—you need an increase, but you have just said that you are not calling for that. Which is it?

Vicki Bibby: We are calling for a fair revenue settlement for local government. We are trying to say that, before any cuts to the settlement, local government is wrestling with a £500 million funding gap.

Graham Simpson: What would you regard as a fair settlement?

Councillor Macgregor: A fully funded budget.

Graham Simpson: Would that mean £500 million of extra funding?

Councillor Macgregor: In a perfect world, yes. We will come on to the other challenges that we will face if we do not have additional funding in the budget. That would cause massive pressures in other areas, but we will come to that later.

Graham Simpson: In your written submissions, you both refer to the restrictions on spending. COSLA says that 58 per cent of councils' budgets cannot be reduced. The Improvement Service put the figure at over 60 per cent, but you are making the same point that there are restrictions on what councils can spend. COSLA's submission says that just 42 per cent of the budget has to absorb cuts, which means that an 8 per cent cut in resources results in a 20 per cent cut in services. Should there be fewer restrictions on spending?

Councillor Macgregor: There must be greater trust between local government and the Scottish Government. I have been involved in some good discussions with Derek Mackay recently, and I thank him for that. We have had some frank and open conversations about trust and what the Government will allow local government to take a little bit more control over.

Historically, we have ended up with an awful lot of "over and above" initiatives that are not contained within the core settlement, which has led to the imbalance, with 58 per cent of local authorities' spending now being controlled through sanctions or other stipulations. There are many things in the budget that could have caps or sanctions removed if there was a little bit more trust in local authorities. We are all in it for the same thing—we are not here to cut services and we do not want to lose staff; we want to empower our staff and provide better services for the public. I believe that the Scottish Government wants those things as well. However, while we have sanctions in place and Government priorities that do not allow us to play with our budget a bit more, we have reached a situation in which it no longer trusts us to deliver what we know we should be delivering.

It is important to get the message across that discussions are taking place and are very positive, but actions will speak louder than words. The Government needs to give us just a wee bit more

autonomy back, to allow us to manage our budgets. As you say, we have only 42 per cent of the entire budget to play with, and only a third of the education budget. That leaves us really strapped as to the decisions that we can make when we start to look for efficiencies, as we said earlier. It is great for BBC-headline-grabbing initiatives to be announced, but it is we who bear the brunt of delivering those.

Paul Dowie: That links to the point about transparency that the committee has made in the past. Glasgow City Council's submission talks about some of the less explicit impacts of some of the constraints—for example, on teacher pay and things like that. It is not just about major new initiatives coming in and how they are funded; it is about teacher numbers and things that will have an impact on the flexibility that councils have.

11:30

Graham Simpson: Mr Dowie, in your submission you say that the total current spending by Scottish councils has reduced by 11 per cent in real terms over six years. Last year, when we were doing this exercise, one of our conclusions was that there should be much greater transparency around the local government settlement. We struggled, frankly, to get straight answers from anyone and the picture was confused. What would you do to make things clearer for us, for you, and for the general public?

Paul Dowie: A lot of work is going on within individual councils in terms of presenting their budgets, what is in their budgets and how their budgets are formed as part of the consultation exercise that they undertake at the moment. There is also the work that we do at a national level, which is about greater collaboration and sharing around how we construct the profiles that are used in the discussions that we have, which are common sets of assumptions that we use across the partners in local government.

The Convener: Councillor Macgregor, do you want to add to that?

Councillor Macgregor: I believe that local authorities are good at consulting their local people. That has improved remarkably over the past five to seven years. At a local level, the consultation goes out usually pre-Christmas or pre-December.

The difficulty that we have at the moment, particularly in respect of transparency for people like yourselves, is that a late autumn statement from the UK Government impacts on the statement from the Scottish Government. Whereas, three, four or five years ago, we were able to start to set budgets in December and almost had them tied down by February, we are

now looking at that process trailing into the following year, which will cause a bit of a challenge for us regarding transparency for the committee. Nevertheless, at a local level, we are very good at consulting the general public. We are just going to have to do it a little bit later and in a slightly tighter timeframe than we have previously had to do it.

The Convener: Does Vicki Bibby want to add to that?

Vicki Bibby: On variations in the budget, it depends on whether you use the draft budget or the actual budget. The key thing for local governments and their core funding is the local government finance circular. It is not easy to tally all these things together, but we are working closely with SPICe and speaking with Scottish Government officials to come up with a common set of presentations that will help everybody to understand the true picture.

Graham Simpson: That is exactly what we were calling for last year. Let us hope that it happens.

The Convener: One of the issues that we had last year, when we were trying to scrutinise budgets, was that some people were including moneys that were transferred via health and social care integration, which was £250 million of support for local government, half of which was for care sector wages and the living wage, whereas other politicians were not counting those moneys. Some politicians were counting support for local government through pupil equity fund moneys, whereas others were not. We found that the numbers changed very quickly depending on what moneys we were looking at.

I am not trying to undermine in the slightest COSLA's assertion that there is a £545 million gap; I am just trying to understand whether that figure takes into account moneys that local government receives for things such as health and social care integration and PEF as well as moneys that it receives through council tax increases. Or is the £545 million a stand-still figure that is based solely on the revenue grant?

Councillor Macgregor: My understanding is that the figure is based on the entire budget and on the assumption that everything that we are already doing—whether it be social care, PEF or any of the other things that we have had to implement over the past two years—requires to continue. Assuming that those things are going to continue as they are, the figure represents simply an inflationary and demand-led increase. It does not include any additional; it is what we require just to continue to do what we are doing.

The Convener: On top of every penny that you got last year, you would need £545 million just to do the same again.

Councillor Macgregor: Yes.

The Convener: That is what you would need, irrespective of where it came from.

Councillor Macgregor: Yes.

The Convener: Would that include giving a wage rise to all your staff? Would that be part of the £545 million?

Councillor Macgregor: The figure takes account of the inflation rate, so the uplift in the living wage is taken into consideration. We are going through some fairly extensive negotiations in respect of the public sector pay cap being lifted, and we were going to go with that, but most authorities have contingencies for a wage uplift at the 1 per cent rate that we have at the moment. As we move forward, we will have to look at additional funding for a greater increase.

The Convener: Is the figure of £545 million based on a 1 per cent pay increase for all your employees?

Councillor Macgregor: Yes, at this stage.

Vicki Bibby: It is based on a general inflation rate of 3 per cent.

The Convener: The figure of £545 million is based on your giving every local authority worker a 3 per cent wage increase. Okay. I am just trying to nail down some of the figures. That is helpful.

Councillor Macgregor: We are giving them a 1 per cent increase at the moment, and the assumption is that that will continue. However, with my employer's hat on, I can say that, going forward, we are looking at an inflationary uplift following negotiations. That is not agreed yet, but it has been factored in.

The Convener: Have you factored in the baselining of the health and social care integration moneys that you got last year, or have you taken that money back out again?

Vicki Bibby: The model takes the current funding and says, on the basis of inflation and the demand that we know exists from the modelling work, how much money local authorities would need just to do what they are already doing. The figure of £9.64 billion does not include health and social care integration money. If we included that money, the starting point would be higher, so applying inflation at 3 per cent and a 2.5 per cent increase to reflect increased demand would give a higher end figure. It is an illustrative model that shows the impact of inflation and demand pressures on the budget.

The Convener: Andy Wightman is being patient, although he is champing at the bit to come in.

So, the figure does not include the health and social care integration money that integration joint boards are spending pretty much on social care provision and wages. Would you not take that £250 million off the figure of £545 million if that money, which you have taken out, was going back into the system?

Vicki Bibby: No. We would add the £250 million to the 2017-18 figure and inflate that £250 million by 5.6 per cent then add that 5.6 per cent of £250 million to the 2018-19 figure, so the final figure would be higher than £545 million.

The Convener: But that money is baselined. We will clarify that.

Vicki Bibby: Yes, I am happy to do so.

The Convener: My understanding is that that money is now baselined into the settlement for local authorities, irrespective of the fact that it is transferred via the national health service.

Vicki Bibby: But we have taken the local government finance circular. We have not included that money in the £9.64 billion, so we have not included what would be required for inflation on that figure.

The Convener: I think that that illustrates the need for all the figures to be made available at the same time, for transparency. I want to ask more questions, but I am not sure whether I am right or wrong, so I am not going to ask any more.

Andy Wightman: I am glad to hear from your response to Graham Simpson's question about transparency that you are having productive discussions with the Scottish Government and SPICe because I think that that is absolutely vital. It is really important for the public to understand that there is a local government settlement and what that is, and then that there is health and social care money and so on. I am very encouraged by that. I really hope that that makes progress this year.

I have a number of substantive questions, but first, on the £545 million, I have a question of fact. Where does the inflation rate of 3 per cent come from? Normally, a gross domestic product deflator for broad costs in the economy is used, and that is 1.8 per cent. I have not looked at that in detail, but it is much less than 3 per cent. What is the 3 per cent?

Vicki Bibby: It is CPI, at the moment.

Andy Wightman: CPI is the consumer prices index—it is based on the cost to consumers. That is not normally what is used to calculate

increased costs for public sector budgets. Normally, a GDP deflator is used. Am I not right?

Vicki Bibby: We look at the retail prices index as well. RPI has historically been used, but over the past few years, there has been a shift in public calculations to more use of CPI.

Andy Wightman: Okay. I just wanted to clarify that you are using CPI.

I am interested in the Improvement Service's paper. It refers to the fact that the Accounts Commission forecast an 18 per cent cut to local government in real terms over the next four years. In the evidence from COSLA, we see that Aberdeenshire Council and others are putting forward five-year projections for their funding over the next five years. That is against the backdrop of not having any formal multi-year funding settlement, but I presume those projections are based on projections from the Accounts Commission—as I have just indicated—and from the Fraser of Allander institute and so on. Is there not a danger of getting into a self-reinforcing cycle where forecasting is done on the basis of declining budgets or budgets that are based on Government cuts?

Paul Dowie: What is reflected in the Aberdeenshire figures—this partly links to the discussion that we have just had—is the question of how we get to a sharing of assumptions and the fact that it would be good to have some common assumptions that everybody is working to. I hope that the debate will move on to considering how the scrutiny process works in terms of those assumptions, making sure that we do not just accept them and instead challenge them, and that long-term planning will become as important as the individual year's budget.

Andy Wightman: Okay. Would COSLA like multi-year budgets?

Councillor Macgregor: Ideally.

Andy Wightman: We have just had an evidence session on city region deals for which sums of money—they are modest sums in the bigger scheme of things—have been put on the table for 20 years, and we heard from the cabinet secretary that that money is factored into a long-term budgeting commitment to bind future Governments. That is quite interesting.

When it comes to planning, designing and changing services and creating efficiencies in order to deliver against projected demand increase, how important to local government is multi-year budgeting as opposed to uncertainty about how much resource is going to be available?

Councillor Macgregor: It is enormously important. I do not think I can stress enough how

important it is. We would love to be in a position in which we were guaranteed some form of funding for big capital projects over a 25-year period. The reality with local government is that, due to the revenue-based nature of the services that we deliver, we have seen the pinch. We have done our efficiencies over the past 10 years and I think that we are reaching a stage at which efficiencies are not going to be able to go much further. Audit Scotland has come down quite hard on us in the recent past for our planning assumptions, and it was absolutely right to do so. In an ideal world, from the perspective of both revenue and capital, we have to start to look at having a better long-term vision, particularly in respect of social care and the delivery of childcare, for example. Again, that has to be a collaborative approach, working with the Scottish Government and the UK Government. Those are long-term projects and we are working year on year on year just to keep our shoes clean.

Multi-year budgeting is incredibly important for us, but it is absolutely right that we look to the Fraser of Allander institute for good, independent external advice to assist us, and it is equally right that Audit Scotland comes down on us when we do not do things right. However, we have to make it better and that has to be done collaboratively.

Paul Dowie: This is not just about infrastructure in the sense of roads and bridges. The key point is to do with the medium to longer term. The shift to prevention, if we are going to do it, requires investment. There is an upfront cost to managing services as efficiently as we can today while thinking about new approaches. With shared services, if we want to collaborate more and change structures, time and investment will be required. Without a longer-term plan, how can we sensibly plan for getting a return on and being able to pay back the investments that we make, or think about whether to make up reserves or plug gaps in future revenue and capital budgets? A broader approach that looks at the full range of possibilities is required.

Councillor Macgregor: The pupil equity fund is a good example of that. When that was given to us last year it was a one-year system. We have initiatives where we do not look at the outcomes and what we are trying to deliver at the end. We do not have a guarantee that that funding will stay with us for ever. We all want to look for better outcomes for pupils who are struggling, and I am not convinced that that model is the best one. There is a big discussion that we have to have. If we are going to improve pupil attainment and bring kids out of situations that are very difficult for them, that has to be part of a wider family approach—it cannot be done just through a targeted fund. There may be better ways to do it, and that is the discussion we have to have. Also, it

cannot be a one-year system. Those kids are not to going suddenly and miraculously have fantastic outcomes in a year's time. It is a really good initiative—it is a good idea—but it needs a five-year or 10-year plan to work. That is just a tiny little example.

11:45

Andy Wightman: Finally—I am aware that colleagues have questions, so I will be brief—would you find it helpful to have a fiscal framework for local government? The UK and Scottish Governments have a fiscal framework with rules about the impact of spending so that at least we know what happens when each party does something. Would that be helpful? Also, how important is more fiscal autonomy?

Councillor Macgregor: The answer to the first question is yes, absolutely—a fiscal framework would be very helpful.

Fiscal autonomy is a very difficult issue. Obviously, we believe that we are the best people to determine how to do what we do at the local level, but that has to be done within a larger framework. I completely understand that, which is why I am saying that we have to work with the Scottish Government and the UK Government. Autonomy is great, but it has to be under something wider. I am not entirely sure that local government has been given the credence that it deserves at times, either. We feel like the poor cousin, and perhaps we need to bolster our structures. As you say, a fiscal framework would certainly assist with that.

The Convener: There were some nodding heads when I checked this with colleagues, but our understanding is that the pupil equity fund is a multi-year agreement. It is not for one year, but will run for this session of Parliament.

Councillor Macgregor: Yes.

The Convener: One could contend that any Government is only really in control for as long as they control the Parliament—

Councillor Macgregor: But the local government settlement is not for this session of Parliament—

The Convener: You are absolutely right, but perhaps the PEF money was not the best example, because it is guaranteed for this session of Parliament. Is it COSLA's position that the PEF is so significant that the Parliament should lock in PEF moneys for a decade or beyond and give a guarantee of those moneys going straight to headteachers? Would COSLA support that?

Councillor Macgregor: No. I am using the pupil equity fund as an example of something that has

been introduced in the recent past and that we are very much in the early stages of. As you say, it is for this session of Parliament, but our local government settlements go from year to year, and if we are looking at longer-term outcomes and targeting funding, which is absolutely essential in relation to the most vulnerable people in our communities, we have to look at a longer-term approach. Those kids are not in the school for two or three years; they are in the school for six years if they are in a secondary school, and seven years if they are in a primary school. Their outcomes are not suddenly going to turn round overnight. It was just one example of funding that is looking for a specific outcome. There needs to be a wider discussion about how we get to that outcome. There also needs to be a discussion about whether the current structure is working or whether we could be doing it better.

The Convener: I know that it was supposed to be just an illustrative example; I am trying to infer from your answer whether you are supportive of the fact that it is a multi-year commitment from the Scottish Government. Does COSLA support the PEF as a multi-year commitment from the Scottish Government?

Councillor Macgregor: At the moment, the pupil equity fund is only for this session of Parliament; it could stop in two years' time.

The Convener: Well, let us not get into the realms of elections. Would you welcome the PEF being locked in for future sessions? Would you welcome, say, a 10-year cross-party agreement in the Parliament to lock in the deployment of money to headteachers to tackle the poverty-related attainment gap?

Councillor Macgregor: Not necessarily; I think that what we need is confirmation of future funding for such projects. They are put in but not necessarily baselined for the following year and the year after that.

The Convener: My point is that you have that for the PEF, Councillor Macgregor.

Councillor Macgregor: It was just one example.

The Convener: Okay. That is fine. We will move on.

Alexander Stewart: There is no doubt that, as Councillor Macgregor has indicated, local government has seen itself as the poor relation over the past decade or so, in relation to the funding that they have asked for but not received. When we consider where we are going at present, we really are now looking at unavoidable choices in reducing services and facilities.

Every council has a financial plan—a short, medium and long-term plan. Audit Scotland has

looked at some of those plans, and a large number of councils are still not getting a tick from Audit Scotland for strong financial management. As Councillor Macgregor indicated, sometimes Audit Scotland comes down hard on local government—that is the reality. How can a council think about improving services, rather than just maintaining them, if they do not have that strong internal financial management?

Vicki Bibby: I do not think that that is what Audit Scotland is asserting. There is very strong financial management in councils. In its overview reports of late—and one on local government is to come out very shortly—it has commended the management of local authorities. It has commented that there should be better longer-term financial forecasting, and I think that that is accepted, but it is difficult to do that with one-year budgeting, as Councillor Macgregor highlighted. Audit Scotland is asking local authorities to plan and go out to budget consultation on the basis of a range of assumptions, and councils are increasingly doing that. There is a host of scenarios, which all need to be resourced. The focus of what Audit Scotland is saying about improvement is more to do with long-term financial forecasting. It has commended the financial management of local authorities and how they have managed to balance budgets in very difficult circumstances.

Alexander Stewart: I turn to how councils manage contingency and reserves. In the past, they tapped into their reserves to try to alleviate some of the situations that they found themselves in. However, their reserves are now being eroded and they are left with very little room for manoeuvre. Where do you see that going if there is no longer that manoeuvrability and councils are looking at long-term financial management but are not able to manage because they do not have the resource?

Vicki Bibby: I know that reserves have been the subject of quite a lot of discussion with the committee in the past. Councils have used reserves to smooth budgets and invest in transformation programmes in recognition of where public finances have been going. We try to highlight that in our submission. Local government has done a lot and managed with the finances as they are, but the sustainability of that approach is very much diminished. There is not as much scope—the upcoming overview report by Audit Scotland will show that reserves are going down.

The Convener: Does anyone else want to come in? Some members want to move on to look at the housing budget, but I want to mop up all the other things first.

Kenneth Gibson: I am keen to look at public finances.

One of the reasons why we do not have multi-year budgets is that the Scottish Government does not really know from year to year what its own budget is going to be. That is a significant part of it.

I want to kick off with a quote from the Improvement Service submission. I think that it is important to get it on the record. The submission says:

“councils have achieved substantial improvements in efficiency, innovation and productivity while service output and outcomes have been maintained and improved”.

Therefore, there is a recognition that councils are doing a lot with less.

However, the Improvement Service concludes that

“There are insufficient resources in the whole system to maintain current services and entitlements in line with demand. The Scottish budget has declined in real terms across the last five years and is currently projected to fall further.”

Given that consideration, how realistic is it to suggest a sum as high as £545 million when we all know that the pressures on the NHS, for example, are growing faster than the pressures on local government?

Councillor Macgregor: You make a very good point. I am not going to get into a discussion about local government versus the Scottish Government versus the UK Government. We are where we are. This goes back to my earlier point, which Andy Wightman picked up on: we have to start to work together more and stop blaming each other. That would be very constructive.

I cannot make any great comment on the Scottish Government’s budget. I am here to represent COSLA. As the Fraser of Allander institute has shown in a fairly recent report, the reality is that the Scottish Government has had increases in funding in real terms, whereas we have not. We have seen a real-terms decrease in our funding. That is a reflection of the Scottish Government’s priorities, and that is its decision to make. I am here to fight for local government, to ensure that we get fair funding for local services and that we are able to continue to deliver what is absolutely vital to our communities. However, I am not going to get into a discussion about who does what to who. I do not think that that is constructive.

Kenneth Gibson: I chaired the Finance Committee for five years and one of our rules was that when someone said we should increase money, we said, “How should it be funded?” If anyone says, “Give us more money”, they have to say, “We think it should be funded by higher taxation, reducing funding for other areas of Scottish Government” and specify what those areas should be. It is a bit hollow for someone to

ask for additional funding, no matter how sympathetic we are to that, unless they also suggest how we should raise that money and where it should come from.

Councillor Macgregor: I completely appreciate that and that is why COSLA has a position on issues such as local taxation. It might not be terribly palatable to some politicians, and that is entirely okay, but there is a recognition that local government needs to be able to raise its own funding. It should not always have to look to national Government for funding. If local authorities had enough autonomy to put in a local tax of some sort, or to work outwith the cap, they would be able to take a bit more responsibility for their own funding sources, and they then might not always have to ask the Scottish Government.

Kenneth Gibson: I understand that, in respect of the settlement for the current financial year, eight local authorities—all Labour-led, incidentally—did not put the council tax up after a nine-year freeze. Does that not make it difficult for COSLA to suggest that the Scottish Government should give additional funding when some of its member councils are not increasing council tax, even after a nine-year freeze?

I have another point on autonomy. The historic concordat of 2007, as it was called at the time, was an important step in abolishing ring fencing. I take your point that some ring fencing has crept back in, but COSLA is being a bit contradictory because you are effectively asking for ring fencing by suggesting in your submission that there should be no more cuts to the revenue settlement—parity with cash increase for the Scottish Government—which would reduce the Scottish Government’s manoeuvrability. Because of our ageing population, the NHS under devolution has increased its share of the Scottish settlement from 36 per cent to 43 per cent. You cannot ask the Scottish Government to reduce ring fencing or to say how money should be spent, at the same time as effectively asking us to ring fence a chunk of the Scottish budget, whatever the share is for local government, at this point.

The Convener: There is a lot in that, Councillor Macgregor. You are, of course, entitled to ask for whatever you like; we are just analysing those asks, so you could make some observations on that.

Councillor Macgregor: It is absolutely reasonable. As you say, convener, there is quite a lot in there.

For us, it comes down to local government having additional flexibility to make local decisions. As you well know, we have a lot of initiatives that are ring fenced, such as teacher numbers. I will not go through them; you know them all.

I do not know any Government or any elected politician from any Government, that wants to sack teachers or anything like that. We are here to deliver services and empower the workforce, and that applies across the sector. However, we do not have control over or say in what we do with almost 58 per cent of our budget.

Of course, some of what we have to do is statutory, but some of it is ring fencing that was supposed to have been taken away 10 years ago, and that ring fencing has increased to the detriment of our core budget. The core budget is the element that allows us to deliver employability and skills, to boost our local economy, to bring in greater revenue opportunities and so on. Those areas could be hit if we cannot make more autonomous decisions in other areas.

Only seven local authorities did not move the council tax. I cannot speak to what they will do this year, but again there are huge disparities in council tax across Scotland. Some local authorities, quite rightly at the time, kept the council tax levels low while others put them up. When the freeze was put in place, it put those that were on a very low rate at a huge disadvantage. Maybe we need to look at the cap and how that is delivered. It comes down to trust and communication, which is what I am engaging in with Scottish ministers in trying to find more resourceful solutions to ensure that local government gets a good settlement and that the Scottish Government can support us in that.

Kenneth Gibson: I completely agree.

Paul Dowie: We need to have a debate about more flexibility, and about having more or doing less. We also need to make that a good discussion at the local level, and one of the places where it can take place is through community planning. All councils and partnerships have just created their local outcome improvement plans. That is not the whole answer but how we make better use of the shared resources we have at a local level in identifying some key priorities will be at least part of how we move that communication forward at a local level. I do not think that is going to solve the problem, but it is going in the right direction and we are getting to the point at which we might see to some tangible joint actions in more areas across Scotland.

12:00

Kenneth Gibson: That is fundamental. One of the issues, of course, is that ring fencing has increased from 2 per cent to 10 per cent because the Scottish Government agreed with local government that it would provide additional money for things like free personal care, teacher numbers, and so on, and some councils decided

to spend it on something else. The trust element was slightly lost there.

Regarding the point that Mr Dowie made, when the Accounts Commission was before the committee, it said that one of its concerns remains that, even in local authorities that are similar—two urban local authorities, for example—there can be quite significant differentials in the costs of different services that look similar in the view of the Accounts Commission. The Accounts Commission has said it is grappling with that. We are not talking about differences of 5 per cent or 10 per cent; sometimes it can be 50 per cent, or double the amount. What is local government doing to look at best practice in relation to service delivery so that the margins of service delivery are reduced and we get more efficiency with what is likely to be not a great settlement for local government, despite all the discussion we have had today?

Paul Dowie: The collaborative work that has been done around the local government benchmarking framework is getting deeper. We now have six years' worth of data. Family groups of similar councils are talking to each other. There have been thematic workshops around looked after children and economic development, and reports will be published soon about best practice, the reasons for the differences, and what is driving those differences. Local government is getting better at understanding the differences and sharing what is driving them, what is good practice, and what is working around that. That is a golden thread that is running through what we are trying to do now.

Kenneth Gibson: I have been looking at the figures and doing some sums. I notice that you have added inflation at 3 per cent or £297 million; it is £289.2 million by my count, but I assume that some of that is to do with the living wage.

The £70 million a year represents a 1 per cent increase in salary, and the total cost of that would be £210 million. Is the £210 million set against the £297 million? Is it part of the £297 million? I am asking because local government also has other revenue sources, such as, for example, a 3 per cent increase in council tax next year that would provide another £62.25 million, and charging, which of course would provide even more for local authorities, would increase the total to £168 million. Have you put into your request for additional funding all the inflationary pressure caused by an assumed 3 per cent wage increase on the £9.640 billion, or is that in the overall local government settlement? If it is in the overall local government settlement, that would mean that £255 million of inflation in other areas of local government has not been detailed.

Vicki Bibby: The £9.640 billion is not total spend; it is grant. Spend is significantly more, at £12 billion. I could run the figures for total spend and inflate that to what we would need for spend in the future. This is focused on—

Kenneth Gibson: I am sorry to interrupt but you said £12 billion. The submission says £15.3 billion.

The Convener: I will let Vicki Bibby respond again, but we have to move on shortly.

Vicki Bibby: Maybe this is something we can follow up on because it depends on whether you want to include the housing revenue account. You can include a host of different elements of spend, or not. The quick answer is that the spend does not include charges, but you could inflate charges on top of that.

It might be useful for the committee is if I run figures on the total expenditure and break that down similarly. This was on the grant element.

Kenneth Gibson: Yes. Thank you.

The Convener: As part of that, could you go back to the original question about where integration funds would sit within that.

Vicki Bibby: We will do that for you.

The Convener: It is a reasonable observation. I have been in the Scottish Parliament for 10 years now, and it is all part of politics. Governments like to make the funding of councils look as generous as possible and councils like to make it look as bleak as possible. Behind the scenes, negotiations go on and then we add the politics on top of that again. We just want a bit of transparency in the figures and we genuinely struggle with that, so any additional information would be welcome.

Does anyone else have another theme to ask about before we move on to the final line of questioning, which is about housing? I am conscious that we have not yet asked about service redesign. I want to make sure that we get some evidence some of that on the record. Are there examples of good quality service redesign and would reserves have been used for that, rather than being used to plug gaps in other spending? These are challenging political and financial times for local governments, so we have to see some good quality evidence of service redesign taking local authorities forward.

It is not that I wanted to ask that question, colleagues, but we have to ask it as part of the process.

Does anyone have any comments on that?

Paul Dowie: There are some general references within the evidence to work that Glasgow and Renfrewshire and other councils have done.

I have a couple of examples. One example that ties in with digital and internal transformation leading to service transformation, is the work that Fife has done, particularly during the past five years. Fife looked at its asset base with regard to mobile and flexible working. It reduced the number of office locations from 90 to 30 and it has generated about £20 million in savings for an investment of about £6 million. That has transformed the efficiency of all services and how all staff work. Recently, Fife Council moved that into the care at home initiative, and now, with the same workforce and the same investment that it put into transformation work between 2010 to 2015, it is getting 1,400 visits per week compared with 1,100 per week from the same workforce. That is the sort of major change that can be possible.

Aberdeenshire and other councils have done similar work and others have tried to learn from that, but every council is starting from a different place and the investments and changes that are required to make it happen in each local authority can be a challenge.

A more interesting example is around at it from working with the community transformation side, which might not be quite to your point, convener. East Ayrshire has done work around vibrant communities that has led to 30 local action plans, and to looking at community asset transfers, which has generated a couple of million pounds in savings. However, that is looking at a fundamentally different model of engaging communities in the future of services and with what is important for them.

An example that has been used a lot is the continuing work on bringing together internal shared services, or support services. In Glasgow, tomorrow's support services has generated about £5 million in savings, and that has helped to build part of the digital customer service platform that Glasgow needs for the future. Approximately 10 other councils have tried to look at how to build on that and use it. Does that give you enough? I could give you more.

The Convener: To be honest, Mr Dowie, I just want to make sure that there is something on this on the public record for when we report as part of our budget scrutiny.

I have a final question, Mr Dowie, and then I want to bring in Councillor Macgregor. Are there still more opportunities for service redesign that local authorities could be capturing?

Paul Dowie: Yes. Absolutely, because of the pace at which, for example councils are moving their services online. There are simple transactional efficiencies that can be made, but the more difficult area is when you move into self-

management and self-support and build services around those types of transformations. The balance between investment and releasing efficiencies is going to be a challenge. Getting the right level of investment and capacity to make those bigger changes and transformations is the challenge that requires medium to long-term benefits.

The Convener: That is helpful.

Councillor Macgregor: Councils are being quite creative, certainly in working across borders with other councils, and that will continue. There is always more that they could do. Councils are very reflective about their practices and are always looking for a better way of working, and that is absolutely right.

COSLA is working now on a place-based initiative across all public services. Vicki Bibby will maybe pick up on that. Certainly, I think that, where shared services, better opportunities and better working can be found, councils are looking at it and will continue to look at it.

Vicki Bibby: COSLA is involved in, and working closely with the Government on, a public service reform agenda. In light of the public finances, we all need to look at this. As Councillor Macgregor says, we are focusing more on place, bringing all public services together. We are looking for a more permissive environment to allow public services to work better together, because there are great opportunities there.

As the report highlights, local authorities have made more than £1 billion of efficiencies and the easy options have, of course, been done. There is more that can be done, but the greatest potential for savings lies in all public services coming together in a place-based approach.

Paul Dowie: I will give a different example that is to do with looked-after children and involves a lot more preventative work being done to try to make longer-term savings. Argyll and Bute Council and others are putting more into wraparound care, kinship work and community work to stop children getting into the formal system as much as possible, as well as looking to things such as apprenticeship schemes and focusing on getting looked-after children into employment opportunities. There is a bit of joined-up thinking on that across councils. It is an interesting example of how councils are focusing on and targeting effort on those higher-risk and higher-demand areas.

The Convener: That is helpful. We will move on now, as I know that there are one or two areas that the deputy convener wants to mop up, as well as housing.

Elaine Smith: First, convener, can I apologise profusely for leaving the meeting earlier? There was a very urgent matter that I had to deal with. I would not normally be so rude. If I ask something that has already been touched on, please forgive me.

Kenneth Gibson was asking about council tax earlier. Some councils obviously felt that council tax was a bit of a blunt instrument and that, if they were going to be raising their taxes locally, and impacting on people in that way, they wanted to see what the Scottish Government was doing with its tax-varying powers. I want to ask about the current situation with that. The Scottish Government is taking soundings on the tax issue at the moment. Is COSLA feeding into that?

Councillor Macgregor: Yes, absolutely. At the moment, we are in on-going discussions about income tax and there will have to be further consultation on that. Obviously, any additional funding that is raised through national taxation will go to the Government and how it distributes that will be absolutely within its gift. At local level, we are engaged—certainly, I have personally been engaged—in discussions on council tax and the limits and flexibility that we have with that. Local taxation was in the Government's manifesto and it is a commitment for this session of Parliament, but the Government is very open to any creative or innovative ideas about local taxation and we will discuss those within the round.

Elaine Smith: That brings me on to the housing budget quite nicely. COSLA's submission talks about providing affordable housing and tackling homelessness, in particular about the role that councils have in delivering the 50,000 new affordable homes, and about their statutory duties on homelessness and tackling the number of rough sleepers. Those are things that the committee is particularly interested in now because we are undertaking an inquiry into homelessness.

Is councils' funding sufficient now to allow them to meet their statutory housing obligations and do you have any comments on the Scottish Government's housing supply budget and how that is helping local authorities to address the housing needs in their areas?

Councillor Macgregor: I will defer to Vicki Bibby because this is an area that I am not fully up to speed on.

Vicki Bibby: COSLA's position is that local authorities have found it extremely helpful to have the longer-term indicative figures for housing supply. We have discussed that as part of the core budget, but it is very helpful to have that information.

An area that you will be aware of and on which we can follow up with more information is the concerns that COSLA still has about the level of subsidy that councils receive and the variance between that and the subsidy for registered social landlords. Again, if you want more information on that—I am sure that the committee has received it before—we can provide it afterwards.

There are opportunities in housing in relation to energy efficiency and the potential to use Scotland's energy efficiency programme funding, but that again is operating on a one-year basis, so a plea that COSLA has made quite strongly, and is working very well with Government on, is for greater certainty and clarity about longer-term budgets.

12:15

Elaine Smith: That is an interesting point, which I imagine we will want to follow up on. Obviously it is the councils, not the RSLs, that have the statutory duty on homelessness. I would be interested in having information about that. I will leave it there, convener, because I know that we are short of time and other members might want to come in on the housing issue.

Andy Wightman: I am aware that we are short of time. I have three brief questions, just to get some impressions on the record.

Paul Dowie talked about preventative spending, and he gave an example from Argyll and Bute. Something that concerns me is how we account for innovative things that councils do that save money elsewhere. For example, they might do something that keeps young children out of the criminal justice system and saves the criminal justice system money; there is no incentive for them to do that, because there is no consequential cut to the justice department's money. Likewise, if local government does something that makes people healthier, there is no consequential accounting in the health system. Is there a need to create some kind of circular model that helps drive preventative spending by ensuring that people are not disincentivised because they feel that they will not get the benefits that they are creating? Do you get the point that I am trying to make?

Paul Dowie: I get it. We try to focus on the outcome and try to account for that in a way. Anecdotally, we are getting better at pulling that together. I go back to the local outcome improvement plans, which I think will give a joint focus. We are trying to get some measurable view of progress being made jointly on that, and that will help. I think that it is a work in progress and all the things that we are doing and have got better at over the last few years will help us to do, but it is a major challenge, and it goes back to the

investment point. Part of the problem here is how you decide what is going to work. How do you decide that investing in a new model of preventative work will pay back in revenue reduction later on somewhere in the system? Even within an individual council, how that investment decision is made and funded is something that we are going to have to grapple with. I do not have an answer, but I think that we are making the right sort of progress to getting the information that will support us in doing that better.

Andy Wightman: That is helpful.

I have a brief second question on the gender pay gap. What are councils doing to try to close the gender pay gap, and is that built into budget forecasting?

Councillor Macgregor: Yes. I think that we have a paper going through the equalities committee fairly soon. That is something that we could supply outwith the committee today, if that is okay. Obviously councils are doing their level best to close the gender pay gap, and certainly at local level they are setting themselves targets. Whether they are meaningful or not, it is a very difficult conversation to have, but I think that, particularly in the higher-paid bands in local authorities, where there is a larger disparity, they are trying to do more to get a better ratio. As I said, we have a report coming fairly soon, so we could supply that to you as well.

Andy Wightman: The final question is on climate change. We are anticipating more ambitious climate change targets. There are moves at a European and international level to look at locally determined contributions. Local government has a firm role, together with national contributions. What thinking is going on for future budgeting on areas that local government can play a big role in, such as transport, planning, housing and energy efficiency, in terms of preventative spending and the prevention of carbon emissions?

Paul Dowie: I have a couple of observations. I do not have an overview across local government on that. Aberdeenshire Council has taken the innovative step of setting a carbon budget and building that into its budget-setting process. It is the first council in Scotland to do that. In the Fife example that I mentioned earlier, part of the target was to get rid of 3,500 tonnes of carbon as part of the projects. As part of many council policy-setting processes and things like that, it will be one of the things that are factored into policy decisions.

The Convener: Can I check a couple of things in relation to housing? There was an interesting answer on the question of whether there is any inequity between the subsidy for new-build social rented housing in the RSL sector and the subsidy for local authorities. Is there a difference? Quite

often local authorities do not have land costs for their new-build properties, whereas RSLs may have to purchase land, ironically sometimes from local authorities. Some reflections on that would be quite helpful.

Councillor Macgregor: We can follow up on that. We will have evidence at COSLA of the differences between local authorities and RSLs. We have local authorities that no longer have housing stock but have RSLs that are very proactive in their areas. We will have that data, and we will certainly get it to you outwith the committee, if that is okay.

The Convener: That would be good.

Councillor Macgregor: I think that it is quite an important question.

The Convener: I think that your evidence was that you felt there is inequity there. I am trying to follow up on whether there is. Do you recognise that the affordable housing investment programme has been fairly substantial and will continue to be fairly substantial with indicative budgets over a number of years?

Vicki Bibby: We found it very helpful to have the indicative numbers over the years. Councillor Parry has a lot of detail on this area. We can follow up very soon, because I know that you will need it as part of your evidence on the particular issues that you have raised on housing.

The Convener: I am trying to get a balance to it, because the committee might decide that it is compelled by much of your evidence—it may not—on longer-term financial planning, but if the affordable housing budget is an example of the Scottish Government delivering on that, it would be good to get it on the record. Is that an example of the Scottish Government delivering on that?

Vicki Bibby: Absolutely, and it is very welcome.

The Convener: That is helpful. We have been doing an inquiry into homelessness, and people have mentioned the statutory duties of local authorities. One of the questions that I asked during that inquiry was whether that is a cleverer use of the affordable housing budget. If you are building new houses, doing something imaginative in how you invest in that, how you allocate those houses, and how you create a sense of place for those who are most vulnerable in society—those who are homeless and rough sleeping—could pay great dividends both in tackling those who are most vulnerable and homeless and in meeting the 50,000 target that we all share. Is there consideration of that by COSLA?

Vicki Bibby: I know that Councillor Parry and COSLA officers are involved in the development of the homelessness prevention strategy group, and I know that this is an area that they are discussing.

Again, apologies because we do not have the information to hand, but we can certainly follow up with something formal from COSLA on that.

The Convener: That is fine. I know that what committee members do and do not ask can be quite random sometimes, and that you plan for one line of questioning and then another one emerges. That is just the nature of these events. It is also very difficult to discuss budgets, because none of us knows what the numbers are really going to be, so it is a little bit of shadow boxing.

Councillor Macgregor: We might know quite soon.

The Convener: Yes—imminently, perhaps. Perhaps we should have done this next week.

Before we close this evidence session, does any other member have anything that they want to raise with the witnesses? If not, I thank our three witnesses for giving evidence today. We will follow up in writing on some of the matters that we have discussed.

We move to item 3, which we previously agreed to take in private.

12:23

Meeting continued in private until 12:53.

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