



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Local Government and Communities Committee

**Wednesday 30 May 2018**

**Session 5**



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Pàrlamaid na h-Alba

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**LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE**  
**18<sup>th</sup> Meeting 2018, Session 5**

**CONVENER**

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

**DEPUTY CONVENER**

\*Monica Lennon (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:**

Derek Hoy (Audit Scotland)

Fraser McKinlay (Accounts Commission)

Ronnie Nicol (Audit Scotland)

Graham Sharp (Accounts Commission)

**CLERK TO THE COMMITTEE**

Jane Williams

**LOCATION**

The James Clerk Maxwell Room (CR4)



# Scottish Parliament

## Local Government and Communities Committee

Wednesday 30 May 2018

*[The Convener opened the meeting at 10:02]*

### “Local government in Scotland: Challenges and performance 2018”

**The Convener (Bob Doris):** Good morning. Welcome, everyone, to the 18th meeting in 2018 of the Local Government and Communities Committee. I remind everyone present to turn off mobile phones. As meeting papers are provided in digital format, tablets may be used during the meeting. I am pleased that we have a full house of MSPs today—no apologies have been received.

Agenda item 1 is an evidence-taking session on the Accounts Commission report “Local government in Scotland: Challenges and performance 2018”. I welcome Graham Sharp, who is the chair of the Accounts Commission. It is great to have you with us—I think that it is your first time.

**Graham Sharp (Accounts Commission):** It is.

**The Convener:** I also welcome Fraser McKinlay, who is the controller of audit at the Accounts Commission and, from Audit Scotland, Ronnie Nicol, who is the assistant director of performance audit and best value, and Ashleigh Madjitey, who is an auditor in the performance audit and best value section. It is lovely to see you all, even if we have seen you before. Thank you all for coming along.

I think that Mr Sharp has an opening statement to make.

**Graham Sharp:** Yes, thank you, convener. The Accounts Commission welcomes the opportunity to discuss the report with the committee. The report represents the commission’s annual commentary on key issues in the local government sector.

The environment in which local government operates is increasingly complex, with increasing levels of uncertainty. The United Kingdom’s withdrawal from the European Union is expected to have profound implications for councils, and the Scottish Government’s commitment to a significant pace of public sector reform means that there are major changes for local government at key stages of implementation. Those events are taking place

at the same time as substantial reductions in public spending and increased demand on many local public services.

Implementing transformational change is becoming essential to councils as they respond to those challenges. Forecast funding gaps are higher than current levels of reserves for some councils, meaning that the delivery of savings is becoming increasingly crucial. The proper scoping, resourcing and management of transformational work is key if councils are successfully to deliver sustainable service change. Cohesive, decisive leadership is also needed to bring officers, councillors and their communities together to address the major challenges that councils face.

Councils are engaging with the increasingly difficult task of managing the competing priorities of reducing costs and maintaining services for an ageing population. Current arrangements mean that some councils can expect to receive less Government funding as their total population declines, while an increase in their older population means that demands on key services, such as social care, increase. At the same time, the implementation of significant policy and legislative changes will increase expectations and the duties of councils and, in many cases, will have additional resource implications. The detail of some of those changes is yet to be finalised.

Despite continued budget reductions, national indicators suggest that councils have maintained or improved performance in a number of areas. However, customer satisfaction levels have fallen and some services are not keeping up with demand, suggesting that budget cuts are having an impact on services. Smaller service areas have so far borne the brunt of funding reductions.

The recommendations in our report are directed at both senior managers and councillors, whose role continues to become more complex and demanding. We highlight again councillors’ need for training and development, and for good information about finances and services, including long-term financial plans.

There is substantial change in the environment within which councils operate, and the commission continually considers how its work reflects that changing environment. Our annual overview report is intended to be a helpful summary of evidence from the wide range of local government audit work that is carried out. It cannot realistically cover everything and it is not a comprehensive review, but it highlights the key challenges that councils face and looks at some of the main ways in which councils are responding to increasing demand and reduced financing.

My colleagues and I are happy to answer any questions, convener.

**The Convener:** Thank you. I appreciate that introduction. I will start by looking at some of the numbers in relation to the finances that are available to local authorities. I eventually want to get beyond the numbers and see how local authorities are dealing with the challenges, irrespective of the figures, but I want to get a better understanding of the figures first.

There is no doubt about the challenges that local authorities face. You state in section 17 of your report that

“Between 2010/11 and 2018/19, revenue funding has fallen by 9.6 per cent in real terms”,

and there is no denying that.

Of course, the committee has sought to probe the numbers further during our scrutiny of the budget. I am sorry that I do not have a direct crossover for your figures, but for the years 2013-14 to 2018-19, there has been £355 million of integration joint board moneys for health and social care provision. In effect, that money goes to the social work care side of things—the core business of local authorities—but would not be accounted for in the statistics in your report. Along with £150 million of other grant money, councils have had £505 million in total that is not included in the report’s figures—if I have got my sums right. I might not have got them right, and I am happy to accept that I am wrong, but it has been put to me that that £505 million figure means there has been a 2.1 per cent real-terms cut, which is still a significant and challenging cut.

When we look at the 9.6 per cent real-terms cut—I have asked the Accounts Commission this question previously—are we looking at the bigger picture? If, for the years that I gave, £505 million has gone to fund local government services through integration joint boards, surely that has to be taken into account.

**Graham Sharp:** You have correctly identified an area of difference between how different bodies present data. We looked carefully at the rationale behind different amounts of money and we are content that this is the fairest way to present the position. The funding of integration joint boards is not necessarily treated in the same way across the board. Fraser McKinlay might want to expand on that.

**Fraser McKinlay (Accounts Commission):** I do not have much to add. As you know, convener, in the report that we presented to you previously—the report that we are considering today focuses on the wider performance of councils; the report that the commission publishes in November is specifically about finances—we tried to split up

better the different bits of local government funding, about which you asked.

We continue to be of the view that, because the integration money is funnelled through the health budget, it is reasonable for us to take the revenue settlement from Government to local government as what is in the local government bit of the budget. That is what our report refers to.

We recognise that there are other bits of funding for specific purposes. The Scottish Parliament information centre produced a helpful briefing on local government finance recently, on which my team worked with the SPICe team. As we look ahead to the next financial overview, in November, we will continue to try to present the information in a way that is easier for everyone to get their heads around.

**The Convener:** That is helpful, and I accept everything that you have said. I merely make the point that we want to go a little beyond the numbers and see how moneys are being used, and that a sum of £355 million over six years, which goes directly to support social care initiatives in local authorities, has to be relevant when you are talking about local authorities’ spending power and revenue grant. My view is that that figure should be set beside your figures, to give the bigger picture, but I do not see that in the report. It is actual money, which is spent on the ground to support services.

The Accounts Commission talks about changing demographics and the ageing population—the perfect storm, if you like, of a population that is decreasing at the same time as it is ageing. A smaller base is perhaps triggering less money from central Government, but we have a population in which people have complex health needs and multimorbidities, so they need more social care and support.

That is why I think that it is pretty relevant to talk about integration joint board moneys. We have done a mapping exercise on the moneys from IJBs that are available to meet the demands that you mention in your report. You said in the report that a big challenge is the declining and ageing population, which might affect the revenue grant. The other side of the coin, which might also have an effect, is that there are IJB moneys available to meet demand. Have you matched the two, so that we are comparing apples with apples?

**Graham Sharp:** We have not matched that on an individual council basis. I think that there are two points to make here. One is about how we treat the moneys that you correctly identified. Part of our rationale in determining how we look at the issue is consideration of decision makers and who is responsible for the money. If money is

going into an integration joint board, it is the integration joint board's responsibility.

Councils work in partnership with the IJBs and other partners to provide many services. In this report, we focus on councils. It is always possible to expand the scope and bring in more partners if specific areas are being considered, but at the end of the day we wanted a view on councils.

On breaking things down by council area, this is an overview report, in which we do not consider individual councils. We would do that in the best-value assurance reports that we produce on individual councils.

The point that we make in this report is that about 25 per cent of councils are in a position whereby, under current funding arrangements, their funding will go down as their overall population goes down—that is just the way in which the formula works—but that, given the mix of those councils' populations, we anticipate that the potential needs of those populations will increase as the older population increases. It is about that disconnect between the directions of overall funding and demand, with resources going down as demand goes up. It is a general point. You are quite right that, in considering an individual council's best-value report, we would look at all those issues; we would look at the IJB, too.

10:15

**The Convener:** That is helpful. I just want to clarify one thing and then I will bring in other members to explore the theme further or to move on to a new theme. I am looking for members to catch my eye.

If some local authorities' revenue funds start to suffer because of a decline in their population—in comparison with the situation in other local authorities—but they have an increasingly ageing population who have more complex needs and need greater support, should that be fully reflected in the revenue grant? Do we have to look again at how the revenue grant gives weightings for such things or—this is where my question began—is there a way to better identify the moneys that go to integration joint boards? Would it be better to put the money into IJBs to support that population? We have to look at both at the same time to get an accurate picture of the support that is needed at a local level for some of the older and more vulnerable people in our society. Do we adjust the revenue grant formula to improve the weighting for that, or do we assure ourselves that the integration joint board grants take account of it? Perhaps there is a third solution.

**Graham Sharp:** I would be straying into policy making if I were to give a view on that. We can

identify that, under the current structure, there is distortion for certain councils, where funding is going in one direction and demand is going in another. There are different ways of trying to manage that. One way might be through IJBs, in which case we would have to consider how they are funded, how that links up to meeting the demands of that particular population and how it all fits together. Another approach would be to address the funding formula and consider the other ways in which it might be structured. That would be a matter for policy makers.

**Fraser McKinlay:** In the previous financial overview report back in November, the Accounts Commission suggested that the Scottish Government and the Convention of Scottish Local Authorities should assure themselves that the funding formula is fit for purpose. That is auditor speak for, "You might want to have a look at that", for the reason that you have suggested, convener.

As I said the last time that we appeared before the committee, in simple terms, the more that we continue to add specific bits of funding for specific things, the more one wonders whether the core funding formula still makes sense. The formula has remained pretty much the same for a long time.

My second point is brief. Exhibit 4 in the challenges and performances report shows that the picture is very different across the country. It is important to bear that in mind; one size will not fit all.

There is no straightforward answer to your question, convener, particularly in relation to funding for IJBs, because different IJBs do different things and deliver a different scope of services—in some places the IJB delivers only social care for adults, but in other places the IJB also delivers services for children. Midlothian, for example—which is on the right-hand side of the graph in exhibit 4—is experiencing completely different challenges in relation to population growth, including significant increases in the population of young children aged 0 to 5. The challenges in Midlothian are very different from those in Inverclyde, and, whatever the design of the funding formula, it needs to take cognisance of local circumstances.

**The Convener:** Thank you. That was very helpful. Before I move on, I feel that I should apologise to witnesses for yet again raising that theme at the committee. However, I feel that we have not yet got hold of the issue and that is why I continue to raise it. I find it really difficult to get an overall picture of what is happening. However, irrespective of that overall picture, none of us would seek to diminish the significant challenges in local government finances. Chief executives and council treasurers will hate me for saying this,

but money is inputs, and much of the report is about how they deliver outcomes, manage, show leadership and carry out workforce planning. I am sure that we will come on to all of that.

That was a slight apology for my line of questioning. I have no doubt that we will see you at the same time next year, when I will ask it all over again.

**Jenny Gilruth (Mid Fife and Glenrothes) (SNP):** I have a follow-up question on the convener's line of questioning that relates to workforce planning, particularly for IJBs. The closure of out-of-hours services is an issue in my constituency and across Fife. The reasoning that is being provided to MSPs is that the closures are due to general practitioner numbers, but I would like to get clarity on who you think is responsible for workforce planning and GP numbers. We have the health and social care partnerships, the IJBs on which elected members sit, the councils and the Scottish Government. As a constituency MSP, it is sometimes pretty difficult to get accountability at a local level.

Last week, the IJB in Fife voted on the closure of out-of-hours services and on a public consultation that will now take place, and elected members took part in that vote. I note, from the Accounts Commission's report, that one of the strategic priorities relates to

"councillors having the right knowledge and skills to scrutinise council performance and decision making."

There is a question mark over whether elected members have that knowledge and skills base to make those decisions. Who has responsibility for GP numbers and workforce planning? I appreciate that that is quite a niche question.

**Fraser McKinlay:** I am not trying to duck the question, but we will produce a report in November about progress towards integration, and those are exactly the kinds of issues that we will be looking at. It will be a joint report with the Accounts Commission and the Auditor General, because we recognise that integrating health and social care is a joint responsibility across national and local government. The Auditor General is also planning to produce a report next year specifically on the primary healthcare workforce. We produced a report on acute care last year, and we will now look at primary care, including GP numbers.

In strict terms, GP workforce planning is the responsibility of the national health service, but we need to look at it in the context of the services that we are trying to deliver locally. As I mentioned, the scope of the powers that IJBs have over services—forgive me Ms Gilruth, but I cannot remember the scope of the IJB in Fife off the top of my head—will determine how IJBs decide to shape services locally.

Ms Gilruth spoke about the role of elected members, and the same case can be made the other way round in relation to the NHS board members who sit on IJBs, because they need to get their heads round social care in a way that they have not been used to. We will look at those questions and report on them later this year. Experience of how that is working locally is very patchy, and I am afraid that I cannot give the member an answer on the specifics of the Fife case, but, more broadly, I recognise the challenges.

**Graham Simpson (Central Scotland) (Con):** I am looking at exhibit 4 in the report, which you mentioned. It is fascinating to see the areas in which the population is decreasing or increasing and how that relates to different age groups. Should the current funding formula—the way in which councils are given money—change to being based on the age of population and on whether the population of various groups is going up or down?

**Graham Sharp:** That relates to the point that Fraser McKinlay referred to earlier. We have suggested that we should look at the funding formula, but it is not for us to decide what the formula should be. The existing formula is having different effects on different councils. Different councils are finding different patterns of movement in resources and demand, so the formula is not matching the movement in resources and demand in that sense. That is why it is worth looking at the funding formula.

**Graham Simpson:** Where should the committee look to establish the gaps?

**Graham Sharp:** The formula is agreed between COSLA and the Scottish Government, so it is for them to consider the matter and look at alternatives to see whether there is a better way of allocating funding. At the moment, there are clearly disparities between individual councils. This is an overview report to give a view of local government across the board, but it is important to bear in mind that there is considerable variation between individual councils, which comes through quite strongly in terms of funding and demand, as we have highlighted before.

**Graham Simpson:** It is always a controversial area. When we start meddling with the funding formula, councils fall out with each other, people leave COSLA and things like that.

**Graham Sharp:** Absolutely.

**Graham Simpson:** I am not asking you to comment on that. It is just the reality.

**The Convener:** It would be great if you did comment on it, but that might be mission drift. We also suffer that frustration, which is why I was

wondering whether, if we do not tinker with the revenue support grant formula for local authorities, we should tinker with the IJB inputs. The committee has to get its head around that so that we can better reflect the needs of the communities that we serve. That is an important line of questioning.

**Monica Lennon (Central Scotland) (Lab):** When the report came out, in April, the section that I was most concerned about was about the experience of older people who need adult social care. Page 36 says:

“Recent local inspections have raised significant concerns about social care services’ ability to meet demand from older people”.

and the report gives some examples from different parts of the country, such as people in Edinburgh waiting 100 days for an assessment, people having to wait longer for a care package to be put in place and the Scottish Borders seeing nine-week waits for top priority cases. We were told that overnight care for people who are at the end of their lives and want to die at home is especially problematic. There seems to be a problem right across the country.

The report poses the question:

“How are your council and IJB managing demand for social care services?”

I appreciate that a lot of the IJBs are just bedding in; the Public Audit and Post-legislative Scrutiny Committee, which is another committee that I used to sit on, has talked about that a lot. Has enough national guidance come down from the Scottish Government to allow people to meet local demand and provide a consistent service? How do IJBs and councils share best practice? We have talked a lot about the challenges, but some good work must also be being done. How can we cascade that learning?

**Graham Sharp:** As you have recognised, IJBs took over responsibility quite recently, so it is still early in their lives. As Fraser McKinlay said, there are different models across the 32 councils; there is no single division of responsibilities. We will look at IJBs and produce a report on them later in the year precisely for that reason. They are new and they have an important role to play. How the IJBs work with the councils is hugely important, as is how they work with local NHS provision. That is an area of concern for us to understand, and we will look at it later in the year.

**Fraser McKinlay:** Without giving too much away, when the Auditor General and the Audit Commission reported the last time around, there was a huge focus on getting the IJBs up and running. They concentrated on issues such as governance and relationships on the boards.

Budgets were and continue to be extremely tricky in how the money from the health side and the council side works together to form a budget and, even more problematically, in what happens when there is an overspend. There are lots of issues.

That is not to say that lots of good stuff is not happening on the ground, because it is. Most people would recognise that there is lots of great practice. The questions for us are whether that great practice is happening because of integration, whether it would have happened anyway and, in some cases, whether it is happening in spite of integration. That is the kind of stuff we are looking to get under the skin of in our next piece of work.

We will visit six different areas to get under the skin of what is actually happening with service delivery. Having recognised that a lot of the focus was on governance and getting the IJBs set up, we are now asking about the difference that they are beginning to make to the way in which services are delivered and to the outcomes for people and their families on the ground.

That is exactly where we are at. From the Care Inspectorate work, which you have referred to, we see that, even where there is good practice locally, some quite thorny systemic issues need to be addressed. That is exactly where we would expect the IJBs to make a difference.

10:30

**Monica Lennon:** I appreciate that it is still quite early days for IJBs, and I accept that the focus on governance is really important, but the experience that people are having gives cause for concern. The workforce is a big issue. Your report refers to a survey of home care workers that was conducted by Unison in 2016, which found that 80 per cent of them felt that their service had been affected by budget reductions and that many staff described the focus as being on quantity and not quality. When we hear such things, it is hard to see how people will be attracted to working in social care. Is that a problem for recruitment more generally?

**Graham Sharp:** We have identified workforce planning as an issue more generally, and there are a number of aspects to it. As you will have seen in the report and in other reports, one of those aspects is that healthcare is a major employer of European workers, which will affect things going forward, depending on what happens with the Brexit arrangement. Undoubtedly, the workforce is an issue but, as Fraser McKinlay said, we need to look at the whole structure around IJBs and how they are operating and integrating with their constituent bodies. It is early days, but that is really important, because those

bodies are, in effect, a partnership between two different sorts of organisation with different cultures and budget structures, and all that needs to fit together in some way to support a satisfactory service.

**Monica Lennon:** One of the main ways in which councils have reduced their spending has been by reducing staff numbers, and that is likely to continue. Are councils adequately staffed and resourced to manage and achieve transformational change? I am wondering about not just the number of staff but the skills and whether we have the right mix of people doing the right jobs.

**Graham Sharp:** We have certainly emphasised the need for workforce planning and an organisation-wide workforce plan. We noted that barely half of councils have such a plan. What is transformational change? It starts with looking at the outcomes, forgetting about how we do things now and considering how best to achieve those outcomes given what is available to us. The techniques that one would think people would look at are more flexible working within organisations; better use of digital technology to transform what is happening within bodies and the way in which services are provided; and working in partnership with other councils or bodies that are not councils. All of those things are part of transformational change.

Workforce planning is very important, because that involves potentially looking at a different shape of organisation with different services, which requires looking at the skills base going forward and considering what is needed for that new shape. It requires looking at what is there now and then having a plan to get from one to the other. That may be achievable with lower numbers, but different skills may be needed and there may need to be a plan for transferring or acquiring those skills in the workforce. It is a very important issue, and it is an integral part of transformational change.

**Fraser McKinlay:** As well as providing the overview report, I report to the Accounts Commission through individual best-value audit reports, and one of the things that we look at in those reports is the extent to which councils are investing in teams to help the transformational change that Monica Lennon refers to.

That is often difficult for councillors, because it could be argued that they are not seen as front-line staff. It is quite difficult to invest in a team that will help to deliver the change that Graham Sharp has just described. However, our sense is that councils need to do that and resource the work properly, because that is the only way in which they will make the changes that they need to make.

**Monica Lennon:** Have you come across any local authorities that know that such an approach will be beneficial but are resisting it in the short term because of funding pressures? Are there any leadership teams in councils that do not see the value in it?

**Fraser McKinlay:** We see a mix of those things. We have definitely seen recent examples of councils having invested in those teams. It is probably no surprise that the bigger councils find that a bit easier to do. Some of the really small councils struggle to resource at the corporate centre a team that will help to deliver transformational change, but the commission's argument is that, if anything, those are the councils that most need to do it, because that is where it is most required.

My sense is that there is not resistance to change but a genuine attempt to make the books balance and to protect the most vulnerable in communities, in which context it is quite difficult to be seen to be investing in the corporate back-office centre. Nevertheless, we continue to encourage councils to do that, and I sense that people are realising that the status quo needs to shift.

**Graham Sharp:** When we have looked at small councils that are challenged in carrying out the transformational change programme, we have very much encouraged them to look outside and seek assistance from other sources to supplement their in-house skills base, because it is easier for larger councils to put together a team of people to do that. After you have designed transformational change, its implementation is hugely important and difficult—that is probably about 50 per cent of the difficulty. The importance of having people who are able to carry that out cannot be overestimated, and smaller councils might need to acquire assistance from outside.

**Monica Lennon:** When you talk about going outside the council, do you mean buying in consultancy services or are you talking about opportunities to work with other public bodies that are doing some of that work already? I appreciate that it is perhaps hard for smaller councils to set up a full team to do that. What might that look like?

**Graham Sharp:** Smaller councils can access various sources of support. They can speak to their peers in other councils to get advice; they can get support from COSLA and the Improvement Service; and they can look outside to specialists in particular areas, such as procurement. They must identify the different skills that they need and where they can get assistance from in a given area. They need to draw on all those things if they do not have the resources in house. Making it up is not really an option; they need expertise to do the work properly.

**The Convener:** Mr Simpson has a question. Is it a supplementary, Mr Simpson? If not, I will bring in Mr Stewart.

**Graham Simpson:** I think that it is, convener.

Mr Sharp, you mentioned small councils' ability to bring about change. When I looked at the figures for sickness days, I saw that Clackmannanshire Council, which I think is the smallest council, consistently has the highest figures. The figure for non-teaching staff is 16.5 days a year, compared with 8.8 days in East Ayrshire Council. If the gap is closed across Scotland, it could equate to 730 full-time employees. For teachers, East Ayrshire has the best figure, which is 4.1 days, compared with 9.8 days in Clackmannanshire. East Ayrshire might be doing something that Clackmannanshire is not doing. Clackmannanshire and, I presume, others could save an awful lot of money if they did things differently. Have you looked at that in any detail?

**Graham Sharp:** As you will be aware, we did a best-value assurance report on Clackmannanshire Council a few months ago. In that report, we said that the council had to take urgent action to address the situation that it faced and that it could not continue to operate in the way in which it had operated for the past few years. As we always do, we followed up the publication of that report with a meeting with the council, and we continue to monitor the position through our auditors.

The position in Clackmannanshire is specific to Clackmannanshire. On the absence figures, as I recall, it was noted that, as part of the process of finding ways to save money, posts were not always filled, which meant that there were fewer members of staff than normal. That can sometimes lead to effects including greater levels of absence. The council needs to look at how it operates and to implement a change programme, and we have said that publicly.

**Graham Simpson:** East Ayrshire Council seems to be the best at managing absence. Have you looked at what it is doing that other councils are not doing?

**Ronnie Nicol (Audit Scotland):** No. In this piece of work, we simply reflect the material that has come through. This week, the commission published a best-value assurance report on East Ayrshire Council. It is inevitable that we cannot cover everything in our reports. We tend to focus on what we consider to be the key risk areas for a particular council, or those activities that we think are particularly crucial to the context in which councils are operating. At this stage, we have not drilled down into sickness absence in any great detail.

**Kenneth Gibson (Cunninghame North) (SNP):** I want to focus on what I think is the crux of

the matter. We all appreciate that local authorities are under serious financial pressure, but the figures in exhibit 9, for example, show that there has been a 41 per cent reduction in expenditure on collecting council tax yet the amount collected has remained at around 96 per cent. Therefore, efficiencies have been extremely effective in delivering the same outcome. However, there is a wide disparity in outcomes across the authorities.

I do not want to pick on Clackmannanshire Council, but exhibit 10 shows that it experienced a 25.2 per cent increase in the cost of waste collection, whereas Aberdeenshire Council cut the same cost by 33 per cent. Admittedly, the percentage of waste that is recycled in Clackmannanshire increased by 8.4 per cent but the percentage that is recycled in Aberdeenshire remained more or less the same. It is possible that Clackmannanshire Council might have incurred one-off costs to improve the recycling rate.

A concern that I and colleagues have raised over the years is that there seem to be wide variations in the costs of delivering similar services in fairly similar areas and authorities seem not to learn from one another. We talk about transformational change, but if local authorities are to deliver more with less, as they have done on council tax collection, surely there needs to be more working together and more sharing of and learning from best practice.

**Graham Sharp:** I have a couple of points to make in response to that. In general, as we have all said, there are variations across local authorities. If we look at national figures, we find that they pose a question rather than providing an answer. It is necessary to look at individual circumstances to find out whether there are legitimate reasons for differences. Those differences might be to do with supply and demand, geography or even the priorities of councils, because councils can legitimately have different priorities depending on how they view the critical needs of the citizens in their area.

That said, we encourage best practice, and now that we have changed our best-value regime and are looking at all the councils over a five-year cycle rather than on a risk-assessment basis, we will be reviewing more councils and gathering more examples of best practice. As a body, we will therefore have more opportunity to share good practice among councils, which is something that we generally encourage in any event. In addition, through COSLA and the Society of Local Authority Chief Executives and Senior Managers, councils seek to share good practice in various areas through partnership bodies and so on. Fraser McKinlay can add some details.

10:45

**Fraser McKinlay:** Mr Gibson's point is extremely well made. Over the years, the committee has taken an interest in the local government benchmarking framework, which is where the data comes from. As you know, the point of that is to do exactly what Mr Gibson described.

As well as publishing the report and doing all that stuff, the Accounts Commission has been urging councils to get under the skin of the data and ask questions. How is that council doing it? What can we learn from that? How can we get to that level? Never mind about all councils matching the best ones. If every council got to the current average, that would make an enormous difference. We are continuing to bang the drum about that.

It is fair to say that not everyone likes it when we produce exhibits such as exhibit 10. People say that there is a lot of stuff that we do not understand, that it is a blunt instrument and so on, and I understand that. However, it helps us to begin to ask some questions. The phrase that is used is that it is a "can opener", and that is exactly how we expect this stuff to be used. It encourages people to ask questions on things across the board, including sickness absence and educational attainment—in the report, we have another chart about that.

The Accounts Commission is not suggesting that everything should be the same across Scotland, because there are a lot of perfectly good reasons why spend or performance may be different in different places. However, we have an issue with unexplained variation. If councils do not know why there is variation, that is not good enough. They should be able to explain why a cost or a performance level is as it is. If councils are content with it—as Graham Sharp said, it might be about prioritisation—that is okay and they just need to explain it to their local communities. Too often, however, it is not explained and we see enormous variations in cost and performance.

**Alexander Stewart (Mid Scotland and Fife) (Con):** You identify in the report the increased demand and the falling resources, and we all understand that. You also say that councils are increasingly relying on reserves to bridge some of the projected funding gap. In the report, you talk about short and medium-term financial planning, which it seems is being managed reasonably well across the piece—most councils are managing to deal with short and medium-term planning. It seems to be when it comes to long-term planning that the biggest difficulty arises.

Some councils are managing that reasonably well, but others are failing to manage it effectively.

If they do not have an appropriate long-term financial management structure and strong workforce planning, it is a recipe for disaster, but that is where we find ourselves with some of the councils. How can they continue to thrive and survive if they do not do both of the things that you are asking them to do?

**Graham Sharp:** For some time, we have been encouraging councils to have detailed medium-term plans and less detailed scenario-based long-term plans. I agree that they need to have all of that in place, particularly when we are looking at transformational change. We are no longer in a world where councils can rely on doing things in the way they used to do them and just tweak them, because tomorrow may look quite different from yesterday. We have been giving councils that message quite strongly for a few years now.

The position has certainly improved. Fraser McKinlay will have a better knowledge base than I have on this but, not that many years ago, we would get the heads of finance of some councils saying, "How can we plan for more than one year when the Government is only giving us one year of funding?" Our response to that would be that it is not really the point. They are responsible for running the organisation, and the fact that funding is more uncertain makes it more important that they plan for the future and look at different scenarios.

In general, councils have improved, and many more have reasonable medium-term financial plans. Different councils are doing things differently, and that is okay. The point is that they must think about what they do and have a rational basis for doing it. We have seen different approaches to that and not everyone is there yet. After they get to medium-term planning, they need to go on to long-term plans, particularly when they are linked to transformational change. They need to know what shape of organisation they are looking to have, and that needs to fit in with how they see the future of the citizens in their particular geography, demographics and all the rest of it.

I completely agree with Alexander Stewart's basic point. We are improving, but further improvement is needed.

**Alexander Stewart:** We talk a lot about the budget process and about making sure that councils have enough resources. People put their cases forward and ensure that there is funding in their areas of responsibility. Within that, we get overspends from time to time on social care or road maintenance, but we also get massive underspends that councils seem to use to try to manage the situations they find themselves in. If they are identifying massive underspends, the budget process is not thorough enough or it is not being looked at strategically to ensure that

councils have enough funding to manage their situations. I would like to hear a view on that.

**Graham Sharp:** Fraser McKinlay can talk about the detail of the budgeting process.

**Fraser McKinlay:** Absolutely. It is partly to do with the budget process and partly to do with financial management and reporting. To hark back briefly to the November report, I note that we said that there was an overall trend of more councils dipping into reserves. One needs to be careful, because it can be entirely legitimate to use reserves—it is how they are used that is important—but our sense was that more councils were dipping into reserves to support the running of day-to-day services, which is not a good idea, generally speaking.

The other interesting thing that we reported on in November was the enormous variation in the extent to which reserves were being used against what was planned, in both directions. About half the councils were using more than they had planned and about half were using less. That touches on Mr Stewart's point about the importance of good budgeting, good monitoring of spend and good reporting on that through the year. All of that should be in place in the context of good medium to long-term financial planning—which, to be fair, and as Graham Sharp said, has moved a long way in councils over the past five years.

Many of you are ex-councillors, and you will recognise that the budget process is now much more of an all-year-round process. There was a time when it started at Christmas and finished in February. This week, I saw the website of a council that has launched its consultation now for setting the budget in February.

**Alexander Stewart:** That is the way forward. As you have mentioned, there can be massive variations between councils. Some spend 50 per cent of their budget on education and social care, others spend 60 per cent and yet others—we have touched on Clackmannanshire Council—spend 80 per cent of their budget on those areas. That gives them nowhere to go to try and manage a crisis situation. You identified that they need to come up with a plan, but when only 20 per cent of the budget is left, that is virtually impossible unless they make even more drastic reductions in services.

It is about how we manage that process to ensure that the funding goes to the right location and that councils have enough to keep themselves going. If they do not and they continue at the present level, there will be crises and there may be some losses in the next three or four years.

**Graham Sharp:** You have made two points. One is about the importance of individual councils

planning properly, which we have discussed, and the other is about the general trend of expenditure. We have illustrated that, assuming that nothing changes, and looked at what will happen if things just roll forward. The two big protected areas—education and social care—squeeze everything else, so there is a multiplier effect in any funding reduction for other services.

However, those are the services that many people see—not everyone benefits from social care or education—and it is perhaps not entirely surprising that we see satisfaction go down in some areas, because the reductions in services that those people perceive will be greater. We give that example to highlight the issue. I do not want to say that many of those services are not front-line services, because some of them may be regarded as such, but they may not be so clearly related to immediate effects. Regulatory services fall into that category. When they fail, it can lead to very serious consequences, but one is not aware of those consequences until something happens.

There is an issue around that, and about continuing to provide a proper standard of services across the board. However, it is challenging. In no shape or form do we say that it is an easy job at the moment.

**Fraser McKinlay:** In exhibit 2, we set out the pattern of spending and the extent to which education and social care are now presenting by far the biggest chunk of spend. I would not necessarily accept that that cannot be affected by change and transformation. We would challenge the concept that, because a council spends 60, 70 or even 80 per cent of its budget on education and social care, that spend is a given and we need to concentrate on the other areas. The arguments for change and transformation have to apply to education and social care just as they apply to everything else.

**Andy Wightman (Lothian) (Green):** Thank you for another very interesting report. I want to take you to exhibit 1, which covers the context for all of this—the UK and Scottish legislative and policy changes that are taking place. There is a lot in the exhibit, and the committee is in the middle of dealing with the Planning (Scotland) Bill, which also potentially poses challenges. Can you give us, in an historical context, a sense of where we are with the challenges facing local government? Are we in unprecedented times, or have we been here before? What can we learn from experience?

**Graham Sharp:** That is an interesting question. My perception is that life is now more complex in a proper sense—that is, A affects B, which affects C, which affects A. Everything is more joined up and everything is faster and more complex than it was. With local government being in many ways at the delivery end of many policies, local and central

Government are perhaps more intermingled than they were in the past. When we put that together with the financial pressures, we can see that things are more complex. However, I would be interested to hear others' views. Ronnie Nicol might want to comment.

**Ronnie Nicol:** Yes—go to the old guy who has been around for a long time. [*Laughter.*]

I am not sure that I would necessarily use the word “unprecedented”, but we included exhibit 1 to try to illustrate that things are a bit different at the moment. As Graham Sharp said, the pace of change is much more significant and the complexities are more complex, if you like. There have always been complex problems in local government, but now they are multifaceted. As we know, technology speeds everything up: apart from anything else, that also often speeds up demand. Social media also create a different environment for councils.

In addition, there have been some individual shifts that are potentially very significant, including the UK's withdrawal from the European Union. Across the board, we are looking at issues around the new financial powers and how they change public services and create a new agenda, which is also partly to do with local government.

I certainly agree that there are very significant changes ahead. Our key messages are that councils need to be prepared for that and to organise themselves in that context, and that people should not expect things to be the same or their jobs to be the same. When I started in local government—which was a long time ago—the council's job was basically about delivering the same services every year in the same way to every person. That has changed radically over my working career. However, the pace of change and its significance have become much greater.

11:00

**Andy Wightman:** You have suggested that the implications of change are challenges, but some of them are opportunities to do things differently and in a positive way, compared with how we did them in the past. You mentioned digital technology in that regard.

Mr Sharp reflected a minute ago on the fact that one-year budgets are not a reason not to scenario plan for the future, which I very much agree with. However, local government in Scotland has virtually no fiscal autonomy—among the least in Europe—which surely has an impact on its ability to plan for the future. Councils can do things differently, plan for different scenarios and make efficiencies, but on the core question of resourcing, the one thing that they cannot currently do is raise revenue in different ways. We

will touch on that later when we discuss the report “Councils' use of arm's-length organisations”.

Have you considered doing comparative work that looks across the UK and Europe to see how local government in a different political context is adapting and transforming to meet challenges that we are facing?

**Graham Sharp:** I will come back to that question in a moment. First, on organisations getting only a one-year settlement, my point was that that is not a reason for them to look only one year ahead; in fact, organisations must look much further ahead than that in order that they can keep going in a sensible way, given the challenges that they face. I make it clear, however, that I am not suggesting that it would not be better if organisations were to be given more than one-year financing.

On comparative work, we frequently look at what is being done in other places when we carry out national performance audits. However, I am not sure whether we did that on this occasion.

**Fraser McKinlay:** We did not do that, specifically. However, it is widely recognised that comparative work should be undertaken. For example, the Convention of Scottish Local Authorities' commission on strengthening local democracy report “Effective Democracy: Reconnecting with Communities” which was published a couple years ago, went into quite a lot of that territory. Certainly, from our perspective as auditors, we look at places such as Australia and New Zealand for comparators as much as we look at other countries in Europe. Again, the structure and the funding of local government in those countries are very different from what we have here, so there is no doubt that that is an important part of the context.

Members will appreciate that, for us, that very quickly begins to stray into some quite tricky policy and political territory. In a sense, we are working within the framework that exists while acknowledging that. That has been the case recently not least in Edinburgh, with the research paper that was published last week about what Mr Wightman will remember has been called the tourist tax—I forget its official title.

**Andy Wightman:** It is the transient visitor levy.

**Fraser McKinlay:** Thank you. That is obviously a live debate that we will continue to watch with interest.

**The Convener:** Do you want to follow that up?

**Andy Wightman:** No. I am happy to go on to other areas, but if we are short of time, other members can come in.

**The Convener:** I wonder whether we can ask more about the workforce issue, given that it will form a key part of our budget scrutiny. Mr Sharp, I think, mentioned that Brexit is one of the many challenges. Do you have a sense that local authorities have done a full audit to work out, for example, how many EU nationals they employ? Are the local authorities in dialogue with those people and reassuring them? Have councils factored in recruitment challenges in that respect?

**Graham Sharp:** We know that local authorities, individually and collectively, are doing quite a bit on Brexit. This year we asked auditors to look specifically at what their councils are doing on Brexit in three areas of exposure: financial, regulatory and workforce. We will get reports from across the board about what is happening.

**Fraser McKinlay:** That key bit of work will give us a stronger evidence base. I can say anecdotally that councils are aware of the issue and that quite a lot of work has been done. Councils know where the pressure points are, particularly in the social care workforce, where there will be difficulties.

Individual councils are doing work—Highland Council did a thorough piece of work very quickly after the referendum, to set out the implications for the region—and the Convention of Scottish Local Authorities has been active in such work, too. My impression is that a lot of stuff is happening. As Graham Sharp said, we asked auditors to look at the issue: towards the end of this year we will have a better and stronger evidence base on what is happening.

**The Convener:** In the context of the budget process and inputs, will the Scottish Government have to provide financial support to enable local authorities to manage the risks, or is what is needed more to do with the policy landscape and reassurance? Do you have a sense of what needs to happen?

**Fraser McKinlay:** The starting point for us is to get some assurance that councils are aware of the implications in the three areas that Graham Sharp mentioned. The financial aspect is important, so that councils have a pretty clear sense of how much European money they currently get. The next question is what happens beyond Brexit; that is the million-dollar question that we all want to answer.

**The Convener:** I acknowledge that there are European funds. I was thinking about the workforce, too. You mentioned social care. I am sorry, Mr Sharp—did you want to add something?

**Graham Sharp:** I was going to say that on Brexit, in general, we all have a problem in that we have no idea what shape the deal will have and, therefore, what its consequences will be. All that one can do—which is not entirely satisfactory—is

identify the exposures. As I said, in local authorities there are the funding exposure, the regulatory exposure and the workforce exposure. Local authorities need to know how many EU people they are employing and whether there are concentrations in particular areas. However, at the moment no one knows whether all or some of those people will leave or stay on different terms.

**The Convener:** A one-year budget is not ideal when a council is planning for five to 10 years, so local authorities model what their responses would be if their budget were to be increased by 2 per cent or cut by 2 per cent or 4 per cent, and so on. When local authorities have done that and considered the demographics and the profile of their workforce, should they be saying, “If those employees go, what’s our plan B? If 50 per cent of them go, what is plan C?” Is it just about exposure, or is it about planning ahead, irrespective of what the deal will look like, as local authorities have to do with their finances year on year?

**Graham Sharp:** That is what the auditors will report on. However, in order to assess the impact of Brexit across the piece, we need more clarity about the situation that we will be facing. That was the point that I was making.

**The Convener:** That is helpful. We might have to extend the discussion on the budget scrutiny element, even if that means that we slightly curtail the agenda item on the report on use of arm’s-length external organisations. I apologise for that.

The health and social care workforce was mentioned. A lot of the workforce are from the EU and beyond. Many of those people might be in ALEOs—we might consider that in the next part of the meeting—and many might work in care homes that are provided by the third sector, for example. I just looked online quickly and found that on 21 March the Glasgow integration joint board set a budget that included an increase of £2.3 million, as its share of the national care home contract, through which all staff are being paid at least the living wage of £8.75, from the start of May. They are not all employed by the local authority—some are employed by ALEOs, and some by the third and private sectors—but they are, essentially, performing local authority statutory duties. Do we know the size of that workforce? Are local authorities clear in their planning ahead in relation to that workforce?

**Fraser McKinlay:** They should be, but I cannot tell you whether they are. That is part of the work that we are doing now, so we hope to get more on that. Irrespective of the UK’s leaving the EU, we expect local authorities to understand how the care system works in their areas, and to plan on that basis. As the convener said, that includes voluntary and private sector providers, too. We are expecting local authorities to do more than just say

that leaving the EU will have some impact on their social care workforce. They should have in mind scenarios that would take care of the “What happens if ... ?” That is the kind of stuff that we expect to see happening this year.

**The Convener:** Who is doing the workforce planning? I mentioned integration joint boards, which are separate from councils, despite their relationship with the councils. I also mentioned the £355 million that does not feature in revenue support as an example of money being spent to support local authority duties. Who does the workforce planning for the third sector and private care home staff and local authority staff when IJBs are setting the budgets? Is there confusion?

**Fraser McKinlay:** There is potentially confusion. In a sense, the point of having integrated joint boards is that they bring together all the different bits of the system.

I go back to my earlier comment that we need to remember that different IJBs have different services in their scope. I will focus on adult social care for a second. The IJB, as the planning and commissioning body for an area, should have a strong sense of the delivery system in its area, including whether a provider is an ALEO, a private sector provider or a voluntary sector provider, and it should be able to commission services based on the budget that it receives from its council and health board.

**The Convener:** This is my final question, because Mr Simpson wants to come in. In terms of planning for the social care sector to make sure that we have enough residential beds, step-down beds, care-at-home staff and the whole gamut of social care services, many budgets are set by the IJBs but many of the people are employed by the council. Even when the IJBs are putting the money in, a lot of it is contracted to the third and private sectors. Whose responsibility is workforce planning when the IJB is not in control of all the budgets?

**Fraser McKinlay:** The IJB is responsible. It is worth remembering that IJBs get their budgets from councils and health boards, in the first place. The IJB then has to satisfy itself that the budget that it receives is sufficient for it to deliver what it needs to deliver. In adult social care, even though IJBs do not employ people directly, they are responsible for ensuring that everything is in place to deliver the services that are required, based on local need.

**Graham Simpson:** I want to go in a slightly different direction. Exhibit 1 mentions several areas in which national Government policies could cost councils money. For example, on education reform, it says that the financial implications are unclear. It says that the Barclay review of non-

domestic rates could cost an extra £80 million and that it is not clear who is responsible for those costs.

Looking at the entry on early learning and childcare, I do not think that anyone would disagree that there should be an expansion of that, but it costs money and councils are unclear— I know that from South Lanarkshire, where I live— because the extra money from the Government has changed and they do not know by how much, although we know it has gone down. There is a lack of clarity. In your report on early learning and childcare you say that there are risks that councils will not be able to deliver the additional hours. My question is on the same theme. When national Governments—whoever they are—announce policies, do councils require greater clarity than they are currently getting?

11:15

**Graham Sharp:** One of the reasons for our having the clarity column was to point to where issues had not yet been clarified to the stage at which everyone knew where they were. Clearly, when we have national policies that need either to be delivered locally or to interact with other services that are delivered locally, local government—as the local delivery end—is crucial, and how that all joins up needs to work. Therefore, there needs to be good communication about exactly what is expected and how it is being funded. As Mr Simpson pointed out, when we produced the report we noted a number of areas in which it appeared that details were still to be thrashed out—or, in some cases, agreed—in order to bring that clarity. Until that is done, in each case there will be a question mark over exactly how things will work as regards efficacy and scope, and the burden on councils.

**Graham Simpson:** How high are the risks that councils will not be able to deliver on early learning and childcare?

**Fraser McKinlay:** As you will know, since we published the report, the Government and COSLA have reached agreement on how much the funding will be. I think that it ended up being about £918 million. At the time of writing the report, councils were giving a number that was quite a lot bigger than the Government’s number. As far as I can tell, they have met somewhere in the middle.

**The Convener:** Shock, horror!

**Graham Simpson:** That is always the way.

**Fraser McKinlay:** That is what happens, and I make no comment about it. There is an argument that says that at the point of introducing significant policy changes and shifts it is quite difficult to put exact figures on them to which everyone will sign

up. There is an entirely legitimate process to be gone through, to figure out what the changes will mean on the ground. Early learning and childcare is a great example, because it touches on everything and has hugely significant implications for workforce, capital investment and infrastructure. Physically having to build new nurseries has been a factor. The problem is not just the money; it is also the system's capacity to implement the changes that are required in real life to ensure that people can get the additional hours that have been promised. The point that we are trying to make in exhibit 1 is that it is only one example. Even that, on its own, would be difficult enough for people to get their heads around.

**The Convener:** With your permission, Mr Simpson, we will leave that point hanging there.

We have a couple of final questions. I cut Mr Wightman off earlier, so we will have his question first. I will just give a name check. We will have Mr Wightman, then Mr Gibson, and then the final question will be from our deputy convener Monica Lennon. Okay—I see that Jenny Gilruth has her hand up, so the final question will be from her. *[Laughter.]* Let us see how we get on. There will be an efficiency saving if we can do that in 15 minutes, let me tell you.

**Andy Wightman:** I return to transformational change. We all attend public meetings, and Jenny Gilruth has spoken about GPs. Last night, I was at a meeting about planning in the city. Citizens have a lot of angst about what is happening and what needs to change. There is a lot of frustration with the system in general.

Last week's Irish referendum on the eighth amendment was very interesting, because that process started off with a citizens' assembly of 99 randomly selected people who scoped the issue and initiated the whole process of change through Parliament and ultimately towards a referendum question. With regard to transformation, is there scope to engage better with citizens by trusting bodies such as citizens' assemblies to come up with ideas, test them, map and consider them and, ultimately, arrive at change that will have more trust and buy-in from the electorate? Are you looking at that?

You have mentioned small teams of people in corporate back offices. With all due respect, although you can do a lot of work inside the system to transform it, ultimately the people who are receiving the services will have a lot to say about how they should be delivered and who could be more in the driving seat.

**Graham Sharp:** In general, we have very much encouraged councils to include communities in finding out what outcomes are required in different areas and the different ways in which they can be

delivered—indeed, that is part of the transformation process.

What people are doing to include communities varies across the country. The move towards community empowerment is still developing and everyone is learning from different things. Yesterday, we published a report on East Ayrshire Council, in which there are quite a few examples of engagement with communities and doing exactly the things that you are talking about.

**Andy Wightman:** I am not talking about involving or consulting communities; I am talking about handing over a set of problems to them. Let us say that, for the sake of argument, you present the challenges in exhibit 1 to something like a citizens' assembly and resource it to deal with the matter. The Irish citizens' assembly worked very intensively—its members gave up their weekends and all the rest of it over a period of about a year.

I am not just talking about better consultation and all the rest of it; I am talking about where the changes are coming from and who is driving them.

**The Convener:** I apologise to Mr Wightman for this interjection. I am keen to hear the answer to that fascinating question, but we are here to discuss the Accounts Commission's report, "Local government in Scotland: Challenges and performance 2018". As fascinating as the topic is, we are drifting away slightly from our mission.

**Fraser McKinlay:** To be clear, when we talk about community engagement and empowerment, we are also talking about much more than consultation. That can be done in lots of different ways, such as through a citizens' assembly or another approach. The short answer is yes—there is more scope for communities to be involved much earlier in the process, so that they are not presented with options that someone else has come up with but are involved in a much more first principles discussion about the type of place they want their area to be and how they want some of the challenges to be progressed and met.

**Kenneth Gibson:** My question is about community empowerment. In part 1, key message 4, you say:

"In 2016, only 23 per cent of adults agreed that they can influence decisions affecting their local area."

No doubt that is why we have a fairly low turnout at local elections.

In the same paragraph, you say:

"New legislation involves councils developing fresh approaches to community empowerment. There are some examples of good work taking place, including new ways in which councils consult with, listen to and work with local people and communities."

Can you give us one or two examples? There are none in the report.

**Fraser McKinlay:** Certainly. The chair mentioned the report that was published this week on East Ayrshire Council. You would not say by any means that the council has absolutely cracked it, but its vibrant communities approach is good at genuinely involving local communities in thinking about how services are designed.

The vibrant communities model is central to how the organisation is run. We see a lot of community engagement initiatives, and whether they are through charrettes or other ways of involving communities in different decisions, they tend to be discrete. The interesting thing about East Ayrshire is that, for quite a long time, that model has been baked into how the organisation is run, and lots of benefits can be seen from that.

I would be happy to follow that up with a couple of specifics, if that would be helpful.

**Kenneth Gibson:** That would be helpful.

**Monica Lennon:** The issue that I want to raise may be on the report's final page, but it is important. Mr Sharp has mentioned the reduction of regulatory functions within councils. A couple of departments are mentioned, including planning, so I refer to my entry in the register of members' interests. The Royal Town Planning Institute has identified a 23 per cent reduction in staffing in planning teams since 2009—the committee has been scrutinising the Planning (Scotland) Bill so we have a keen interest in that—and trading standards Scotland and COSLA have reported a 20 per cent decrease in the workforce. In your report, you rightly say:

"These departments and others provide important services to communities, such as inspecting building standards and public health; there is a risk that staffing pressures and budget cuts could lead to errors with potentially serious consequences to the public."

You also say:

"As the Commission reported in 2013, the long-term viability of councils' trading standards services is under threat, potentially leaving consumers without important protection."

That sounds, potentially, very serious.

My take on it is that local government has been hollowed out. I look at the figures and wonder what can be done to rebuild the services. I wish that I could say that local government was still delivering the same services with fewer staff. However, Unison has a report out today on trading standards, in which one of its members says:

"Consumer protection is at an all time low."

Another member says:

"In over 30 years of trading standards service I have never known morale to be so low."

It is not a great time to be working in local government. What can be done to turn that around?

**Graham Sharp:** As we have been saying, there are significant challenges for local government at the moment, and councils need a different way of organising themselves and different ways of providing services. To some extent, everyone is having to go through that process. It is necessary for local government to perform its functions, and for all services, not just the protected services, to be provided at an adequate level. That has to be built into the transformational change.

Clearly, as a direction, that cannot go on forever and there will come a point at which councils cannot do any more. We are not saying that we are at that point now, but it is very challenging. Significant change is the order of the day and, to different degrees, councils are engaging with that. It is a moving process and we need to keep monitoring it to see where things are, share good practice when we find it, point up issues when we find them and, as best we can, work with local government as councils go through the process.

**Fraser McKinlay:** In response to the 2013 report that Monica Lennon mentioned, the Improvement Service and COSLA put in place some national initiatives to support those services, particularly around workforce issues and encouraging people to come into the professions, and that might be an area on which the commission follows up in the next couple of years. The area is ripe for more shared and joint working across councils, which has to be one of the potential solutions to managing the challenges that we described on page 38 of our report.

**Monica Lennon:** You mentioned work being done to attract people to those roles. My understanding, particularly from speaking to people who work in planning—that used to be my job and I still have a lot of contacts in planning—is that those posts are being voluntarily made redundant or are not being filled. The people who are left working in those departments do not have enough continuing professional development, training or career progression. Why is work being done to attract more people into the profession if the jobs are not there?

**Fraser McKinlay:** At the time of the 2013 report—I can double-check this—it was not just about bringing people in, although that was part of the problem and there was something about the pipeline of professionals coming through. You are absolutely right that that was against a backdrop of the number of jobs reducing and increased pressure on those services locally, so it looked at how to alleviate all those things. The commission has that as a potential audit for its medium-term programme in the next couple of years because,

as our recent report says, there is lots of evidence that those services are still under significant pressure.

**Monica Lennon:** When I have raised issues about local government finance with the Government, it has replied that local government has been treated very fairly by the Scottish Government. One of the options available to councils, given the limited financial autonomy that Andy Wightman outlined, is to introduce charges. Are councils considering that option for some of those statutory functions?

11:30

**Graham Sharp:** As we note in our report, and as we know from our best-value work in general, councils are looking for ways in which to raise revenue. The focus has principally been on fees and charges. There is also an appetite for considering other ways of raising revenues. As members know, there has been much more commercial activity by councils in England. That has not been the case in Scotland, but it is certainly something that some councils are considering.

**Jenny Gilruth:** One of the main themes today has been transformational change and the budget challenges that are currently being faced. I note that in the report you say:

“there can be difficulties recruiting to the top team as salaries are often lower than in the private sector at senior levels.”

In Fife Council, the chief executive is currently on a remuneration package of more than £200,000—more than the Prime Minister and more than the First Minister. North Lanarkshire has 18 staff who earn more than £100,000, and the finance director of City of Edinburgh Council earned more than £500,000 last year. Does Audit Scotland have a view on how much we pay council officials? There is a disconnect between the wider budget constraints of councils and public sector pay being extremely high in some instances.

**Graham Sharp:** You have picked out some specific examples, but if we look over the piece and consider the areas in which the public sector is competing with the private sector, there is a disparity in specialist areas, such as finance, certain types of engineering and digital—everyone is trying to find digital experts and it is quite a struggle to get a good senior digital person.

There is variation across councils. At the moment, Clackmannanshire is recruiting and one of its issues may be that because of the size of the council the salary of the chief executive is probably less than that of a head of service in

other areas. It is a mixed position. but the point is a fair one.

**Fraser McKinlay:** The short answer is that we do not really have a view on whether that is right, wrong or indifferent. The scale is set nationally. The figures that Ms Gilruth quoted include pension entitlement and other things, so the actual salary would be a good bit lower than that.

I make no judgment about whether those salaries are the right amount, but I would observe that councils are big and complicated organisations to run. Even where they are not competing directly in a private sector employment market, we have seen councils struggle to recruit top people. Ms Gilruth mentioned one or two councils that have several folk who earn more than £100,000, but I would note that the strong trend that we have observed over the past five to 10 years is that top teams in councils are becoming much smaller—many councils have just three executive directors running the whole organisation, which brings its own degree of risk.

I am kind of ducking the question, but ultimately it is for councillors to decide what they think those jobs are worth.

**The Convener:** That was excellent ducking of the question, Mr McKinlay. Have you thought about a career in politics once your current career is over?

**Jenny Gilruth:** It is less well paid.

**The Convener:** We had a note that we should ask about additional pressures in relation to the loosening of wage constraint and the aspiration for a 3 per cent wage increase cap. That pressure is mentioned in the report. Any additional information on that linked to workforce planning and financial pressures would be welcome and helpful.

I thank Ashleigh Madjitey for coming along—I am afraid that the other three witnesses are stuck with us for a bit longer.

11:34

*Meeting suspended.*

11:41

*On resuming—*

## “Councils’ use of arm’s-length organisations”

**The Convener:** Welcome back. We move to agenda item 2. The committee will take evidence from the Accounts Commission on its report, “Councils’ use of arm’s-length organisations”. I welcome once again Graham Sharp, Fraser McKinlay and Ronnie Nicol—I apologise for not giving your full Sunday titles, gentlemen, but you were with us for the previous evidence session. We are also joined by Derek Hoy, auditor for performance audit and best value at Audit Scotland. I thank you all for coming along. Mr Sharp, some opening remarks would be very welcome.

**Graham Sharp:** The Accounts Commission welcomes the opportunity to discuss our report with the committee.

Virtually all councils make use of arm’s-length organisations to some degree. Those organisations take many forms including companies, community bodies and charities. They provide a range of services including sports and leisure, museums and theatres, social care and more commercial activities such as property management. Their use has grown over the past 20 years, and we estimate that there are about 130 arm’s-length external organisations in Scotland accounting for annual spend of more than £1.3 billion.

Our report gives an update on councils’ use of ALEOs, building on our earlier work around governance, including our 2011 “How councils work” guidance on the subject.

An ALEO structure might deliver tax benefits. We found that taxation advantages have been a strong driver for charitable ALEOs. Operational benefits of ALEOs include their ability to trade more widely and access new funding or sponsorship. ALEOs might also bring a more commercial or responsive delivery model under a board of directors or trustees.

We report that there is evidence that ALEOs bring benefits to services, and we give examples from sports and leisure and social care, which are two prominent service areas in which ALEOs have been deployed. However, we note that financial pressures remain and that ALEOs bring particular risks that need to be managed.

We found that councils undertake detailed planning and appraisals for ALEOs, but they could do more to involve the public, communities and businesses in that process.

We see improving practice in how councils manage their relationships with and oversee ALEOs. That includes, for example, scrutiny that is proportionate to risk; council committees looking at performance and strategic decisions; and officers taking a stronger role in monitoring finances, risks and governance. That said, issues might still arise over the operation or governance of ALEOs, and we highlight some of those in our report. We emphasise that, regardless of how services are delivered, councils must apply the “Following the Public Pound” code to ensure that safeguards are in place around how they use public money.

We describe the changing context in which ALEOs operate. That includes questions over future taxation benefits to councils following the Scottish Government’s response to the Barclay review, funding pressures and the changing policy environment in areas such as community engagement and health and social care integration. That context means that it is even more important that councils have a strong case for using ALEOs and consider alternatives. Indeed, options appraisal is an important theme in our best-value work in councils. It follows that councils must keep their ALEOs under review to ensure that they continue to meet their intended objectives. We will continue to look at ALEOs in our on-going audit and best-value work in individual councils.

My colleagues and I are again happy to answer questions.

11:45

**The Convener:** Thank you, Mr Sharp—that was helpful.

**Andy Wightman:** The report and your opening remarks indicate that ALEOs come in various shapes and sizes, but is there any defining feature of an ALEO? What is an ALEO?

**Graham Sharp:** I am tempted to say that the defining feature is that there is no defining feature. They come in all shapes and sizes, and they are employed in different areas of activity. The key element is that they are some form of organisation—a company, a community body, a partnership or a trust—that is separate from the council, that has a separate decision-making body in respect of its operations and strategy and that carries out activities for the council. It may carry out additional activities, but there is a link in its activities to the council’s wish to supply services to its citizens.

**Andy Wightman:** Ultimately, it comes down to governance. The strategic plan and the annual report are signed off by a body that is not the full council.

**Graham Sharp:** Governance is one aspect. There are also specific structural aspects. The main structural benefit of an ALEO is a tax benefit that accrues only to charitable ALEOs. There is a governance issue and an information-flow issue, but there is also an operational side. As we say in the report, there is an argument that, in specific situations, a focus on specific activities by a group of people who might not necessarily work for the council can bring benefits. There are operational, governance and structural aspects.

**Andy Wightman:** In Edinburgh, we have a wholly owned municipal bus company called Lothian Buses. Is that an ALEO?

**Graham Sharp:** Yes, I believe that it is.

**Andy Wightman:** It has been around for a long time. You mention in your report that, in England, a lot of ALEOs are used for commercial purposes, and you hinted at that in your opening statement. I am digging into history again, but municipal corporations in Scotland used to be involved in a lot of enterprises—for example, there were energy and transport companies. In a sense, nothing is new here, but it seems to me that ALEOs emerged by accident rather than by design. Will you say something about the genesis of the modern ALEO?

**Graham Sharp:** As you say, there have always been bodies associated with the provision of services by councils that have been separate from the councils but linked to them. I suppose that ALEOs, as we see them now, emerged in the public eye as a result of some high-profile events and a burst of ALEO growth some years ago. At one point, the tax benefit of charitable ALEOs was quite a strong incentive and the approach was promoted to councils by certain advisers. A number of ALEOs were set up with that strong benefit. There was a growth in ALEOs, plus there were some high-profile events. That is probably why the perception of ALEOs, rather than the ALEO itself, emerged.

**Andy Wightman:** You have mentioned that some ALEOs have charitable status, which enables them to attract extra funds. You highlight that in the report, because it is obviously important. You also highlight the Barclay review's proposal to end ALEOs' eligibility for charitable relief from non-domestic rates. That proposal is not being implemented but, by offsetting that relief, the Government is placing constraints on any future ability to get it through the creation of ALEOs.

In paragraph 17 of the report, you say:

"Business cases identify NDR relief as a specific benefit provided that the ALEO meets the requirements for charitable status. While NDR relief can bring benefits locally, it offers no net financial gain to the public sector."

It is true that, as you say,  
"it offers no net financial gain",  
so why all the fuss?

**Graham Sharp:** The comment on the public sector considers the public sector as a whole. You will appreciate that, from an economic point of view, taxes are not a cost but a transfer within the public sector. Therefore, if we consider the total public sector, a public body saving tax is not a net gain, because its gain is a loss somewhere else.

However, there are different levels to the public sector; so, what from a UK national point of view is no gain and no loss could be a gain or loss to, say, the Scottish Government, and what is no gain and no loss to the Scottish Government might be a gain or loss to a specific local authority. Therefore, if a local authority that is faced with financial pressure can do something in two ways, one of which is through an ALEO and one of which is not, and the only difference, everything else being equal, is that, if it did it through a charitable ALEO, it would save some tax, that would be a saving on costs from its perspective and it would be able to deploy the funds elsewhere. Nevertheless, from a total public sector point of view, there would not be a saving on costs.

**Andy Wightman:** Does that not suggest that we should consider regulating ALEOs because, in essence, they are used to gain competitive advantage?

**Graham Sharp:** The market mechanism is a perfectly valid way of allocating resources, and, to the extent that a tax benefit to certain players in the market gives them an advantage, it distorts the market mechanism as an allocator of resources. Therefore, that is a valid line of argument.

**Andy Wightman:** You also mentioned in your opening remarks that there are questions about the extent to which the public is engaged with and involved in ALEOs. However, you say in your report that public satisfaction with ALEOs is, generally speaking, high. Why is that?

**Graham Sharp:** We are looking at different things. We did not find evidence that, when councils consider setting up an ALEO structure, there is good engagement with the public and communities about the different options and about whether to go for an ALEO rather than something else. However, we noted that many ALEOs have good engagement with the public and, as you see, there was evidence of good performance by ALEOs, which would result in public satisfaction. The two things are not inconsistent.

**The Convener:** An ALEO in Glasgow—Glasgow Life—made a controversial decision on concessionary swimming. The council agrees a budget for Glasgow Life and the ALEO cuts its

cloth accordingly, then produces a business plan. Pensioners used to get free swimming in Glasgow but will now pay £3 for a swim, although pensioners on a low income will pay £1 for a swim. The decision is controversial, and constituents have contacted me about it, taking both sides of the argument as to whether it is the right or the wrong thing to do. The logic appears to be that most pensioners who were taking the free swim were from the higher-income brackets and, when surveyed, said that they probably would not mind paying to swim. Pensioners from lower-income brackets will now pay £1 and other pensioners will pay £3, and the money that is raised will allegedly be used to target groups who might be less likely to use Glasgow Life facilities.

The decision is hugely controversial in Glasgow, and I am unsure where the accountability for the decision sits. Other than Glasgow City Council, who monitors Glasgow Life to make sure that it is delivering the outcomes that it says it is? As a Glasgow MSP, I will be interested to know whether, this time next year, the number of pensioners going swimming has gone down or whether the number of pensioners from more deprived areas who are going swimming has gone up. There seems to be a lack of clarity around what appears to be a policy decision. It is unclear whether it is a politician's policy decision or a business decision by the ALEO.

That situation is still evolving, so you may not be able to comment on it, but do you have other examples from across the country of what seems to be a blurring of the boundary between a business decision by the ALEO and a policy decision by the local authority? Who measures the outcomes after such decisions have been made?

**Graham Sharp:** That illustrates one of our main points about the use of ALEOs. When a local authority sets up an ALEO, it must be very clear about its objectives, and those objectives need to be clearly built into the arrangements that it has with the ALEO. There needs to be a way to monitor progress towards the objectives and a way to hold the ALEO to account for its performance against those objectives.

I do not know the details of the example that you gave. If the objective is to increase the number of pensioners who use the pool, that will lead to one set of behaviours; if the objective is not to charge any pensioner more than a certain amount, that is different. It really depends on how the local authority has set out the objectives and how it is monitoring performance against those objectives.

**The Convener:** That will bottom itself out in Glasgow; I will certainly be making representations both to the council administration and Glasgow Life on that, including on how they will track that and be held to account for what other outcomes

are and are not achieved. That is a real-time example of ALEOs in action at local level, where the decisions that they make can be controversial.

Does the Accounts Commission have a broad view of whether ALEOs are disengaged from the communities that they serve or are getting it just about right? What can be done to change the situation?

**Graham Sharp:** We do not have any evidence that ALEOs are systemically disengaged. An ALEO's structure must be considered separately from its management. Many issues that might be raised about a service that is provided by an ALEO might equally be raised about the same service in another council area that is not being supplied by an ALEO. It is down to management.

Again, it comes back to this: when a council is considering setting up an ALEO, it must be clear about the purpose and objectives, and the objectives need to be built into the monitoring and performance structures so that the council can be assured that the ALEO operates as it should. That is slightly different from—but not necessarily more difficult than—running a council service internally. Certainly, in terms of public perception of their performance, I do not think that we found any evidence that one is systemically better than the other.

**Fraser McKinlay:** That is the point that I was going to make. One of the tricky things for our team in this work has been whether to ascribe what is happening to the ALEO-ness or otherwise of a service, because it is as possible for a council department to be completely disengaged from its communities as it is for an ALEO. That is the point that Graham Sharp is making.

12:00

The convener touched on the key point, though, which is that what is important for us is the extent to which Glasgow Life—this would apply to all ALEOs—can explain the rationale for its decisions so that we can then report on the impact of the decision. It is also important that Glasgow City Council, through its governance arrangements, asks the same kind of questions that the convener asked with regard to the difference that the policy change has made.

What we heard from people who work in ALEOs is that they would, potentially, argue the flipside, which is that it is in a way easier for ALEOs to take potentially controversial decisions that they believe to be in the best interests of communities and the service, free from what they might call the politics of a particular situation. So, you pay your money, you take your choice on that one.

**The Convener:** I am not suggesting that Glasgow Life has disengaged; I am just trying to get a picture of the situation across the country. The proof of the pudding will be in the eating—by this time next year, we will have a matrix of what has actually happened in Glasgow with regard to that decision, and we will find out whether it was a good decision in terms of public service or a good decision commercially. That will all bottom itself out. It is just a real-life example that shows how we want to ensure that ALEOs are accountable for their decisions, and that we are measuring the outcomes. I have found that example helpful.

**Kenneth Gibson:** Mr Sharp, exhibit 10 seems to indicate that you are not very keen on councillors being on ALEOs: you give three advantages of having council nominees as board directors and trustees, but you give six disadvantages. Are you suggesting that, on balance, councillors should not serve on ALEOs?

**Graham Sharp:** Councils need to consider carefully why they would put a councillor on an ALEO board, because there are clearly disadvantages to a councillor being on an ALEO board: specifically, their ability to contribute to discussion of the monitoring, funding and performance of the ALEO is limited.

It depends why a council wants a councillor on the board. Is it for them to contribute to the board? If that is the reason, there are other ways of doing that: the council could put an independent person on the board, for example.

Is the reason for putting a councillor on an ALEO board to monitor what the ALEO does? If so, that is probably not going to work terribly well because of the constraints involved. There are other ways of monitoring that are probably more robust, including writing monitoring into the documentation when the council sets up the ALEO, and including the contractual arrangements between the council and the ALEO in that monitoring.

Is having a councillor on the board about giving local people a voice in the ALEO that operates in their area? That might be a good idea, but there are other ways of doing that. For example, there could be representatives from that local community on the board.

What we are saying is that councils need to think very carefully about why a councillor is going on an ALEO board. A council might put councillors on the board to keep an eye generally on what is going on, but then find that they are constrained from doing what the council had in mind.

**Kenneth Gibson:** There might also be a conflict of interests if the councillor seems to be serving the interests of the council or their political party as

opposed to serving the needs of the ALEO in delivery of its services.

**Graham Sharp:** Certainly, people who serve on ALEOs need training in order to know what their obligations are in serving as a trustee or a director of the company. Generally, their obligations are to the organisation and not to any other; they cannot serve as a representative of another organisation but must serve only that organisation as a board member or trustee.

However, the position is not straightforward. We investigated a case some years ago in which councillors were sitting on the board of an ALEO that was in financial difficulties. The council was the main funder and continued to fund the ALEO because it did not know about the financial difficulties. The councillors on the ALEO's board could not say anything about the financial difficulties because they were constrained by their duties as directors of the company, which I believe was explained to them by the company's lawyers.

Councillors would not want to find themselves in that sort of situation. The way round that is to be clear about what is expected from councillors on an ALEO board and, in terms of information and monitoring, to ensure that there are proper contractual or other legal arrangements for that, as opposed to relying on councillors on the board for it, because they cannot perform that function.

**Kenneth Gibson:** I am hearing loud and clear that there seems to be no great enthusiasm for councillors being on ALEOs.

Has the Accounts Commission done any work that suggests that there is a difference in outcomes or service delivery between ALEOs with councillors on them and those without? Do councillors prove to assist, in general, or are they a drag on performance? In the figures that you have presented to the committee you have mentioned Fife Council seeing a 50 per cent reduction in its costs and a 50 per cent increase in uptake in sports and leisure. You have also illustrated how effectively Lothian Buses is delivering, and there are the examples of High Life Highland and the co-operation between ALEO initiatives on wider social and community benefits such as with Edinburgh Leisure and Leisure and Culture Dundee. Has the councillors' presence had any impact—good or bad—on overall delivery?

**Graham Sharp:** There are two points to make on that. One is about whether we have done any work on correlation between councillor presence and ALEO performance. I imagine that we have not. Then there is the attribution of cause, in that if a councillor is on a board the question is then whether that in itself is the reason for superior performance.

**Kenneth Gibson:** Do councillors make an ALEO work more efficiently and effectively and help it to deliver or are they a drag on its performance?

**Graham Sharp:** To be clear, I was saying not that councillors should not be on boards, but that councils need to be very clear about why their councillors are there. The historical straightforward reaction—"Well, we want some of our people on the board so that we know what's happening"—is not a reason for having councillors on boards. However, there might be other quite legitimate reasons for doing so.

**Graham Simpson:** Following on from that, if an ALEO does not have councillors on the board, the council still needs to be able to scrutinise and direct it in some way. How do we achieve a proper level of scrutiny?

**Graham Sharp:** Again, that goes back to being clear about the objectives, how they will be monitored, how performance will be measured and what the consequences of lack of performance will be for an ALEO. That all has to be established in a proper arrangement when the ALEO is set up, after which it needs to be monitored. In our report, we have quoted examples in which monitoring has improved, with council officers looking at ALEOs in respect of risk and amounts of funding. A council needs a structure for monitoring performance that depends on how many ALEOs it has.

It is crucial that the council ensures that the ALEOs are doing what they were set up to do, and if the council does not have someone on the ALEO's board, it just needs to do that in a different way. I come back to the point that a councillor on the board can do a number of things, but he or she cannot represent the council and report back to it on what is happening, because such actions are constrained and need to be done through the proper legally valid channels.

**Fraser McKinlay:** I add that there is a fine line between the scrutiny and the direction that Mr Simpson mentioned. Certainly in the case of charitable ALEOs, the Office of the Scottish Charity Regulator would be concerned about a council directing a charity board to do stuff. That is another example in which demarcation is important. As far as following the public pound is concerned, it is absolutely legitimate for councils to scrutinise best value, performance and so on. However, the point of bodies being at arm's length is that councils would generally not direct them to do stuff. That is why, as Graham Sharp said, setting that up as part of their purpose right at the outset is hugely important.

We have mentioned a couple of examples in the Borders. The council has established a strategic governance group. It does not have councillors on

the care ALEO board, but it has a board of councillors whose job is to monitor the ALEO's performance. There are ways of managing such things.

**Graham Simpson:** A leisure trust, for example, could take a purely commercial decision to allow only certain sports to use leisure centres because those sports bring in more money. However, that may not be the best decision for the health of the council area and the council may take a different view. How could a council influence an ALEO in such a situation?

**Graham Sharp:** That would, in the first place, be down to the agreement between the council and the ALEO about exactly what services the ALEO has to provide and how those services are defined and monitored.

I also comment in passing that a leisure centre could be run directly by the council that also has the dilemma of whether to provide a service that might be better for the community as a whole, or to make more money so the service can keep going. It might not be just ALEOs that have to make such decisions.

**Alexander Stewart:** The report states that, in some areas, 25 out of our 32 councils use ALEOs. They are particularly used in the culture and leisure sectors and you have itemised why that might be the case. For some councils, the initial benefit came from tax relief. What impact would the potential tax reform have? What would that mean for ALEOs?

**Graham Sharp:** As Mr Wightman mentioned, the Barclay review focuses on the damaging effect on competition and, in effect, the market mechanism of a tax subsidy. The Government has gone some way towards dealing with that issue in the provisions that it is bringing forward.

As I understand it, new ALEOs will not benefit from any tax break. About half of ALEOs are charitable organisations, and the change would affect charitable ALEOs. The question would be whether the marginal tax benefit was the critical issue in making the decision to set up that ALEO. In some cases that will be the situation—we are already aware of one case in which the council is looking at another way of providing the service.

The change will definitely affect how many new ALEOs there will be to some extent, but what the impact on existing ALEOs will be is unclear. I do not know to what extent they can expand their activities without penalty. Clearly, in the ordinary course of business, you would expect them to expand their activities. It is unclear, generally, how such a provision would work, so I am not able to give a view on any impact.

**Alexander Stewart:** Given the changing environment, what risk assessments, governance and scrutiny should ALEOs consider?

**Graham Sharp:** Under the previous agenda item, we made the point that, these days, tomorrow is different from yesterday. Councils need to look regularly at why they use an ALEO and whether it still makes sense to do so. The tax change is an environmental change that would result in such a review taking place of the use of charitable ALEOs.

**Andy Wightman:** There are quite a few changes taking place with ALEOs. Some services are coming back in house. As part of our budget scrutiny this year, we are looking at workforce planning, which you highlighted in our previous discussion as being one of the big challenges. To what extent do ALEOs provide a useful mechanism to plan workforces? Arguably, they are more flexible; on the other hand, it can be difficult to plan a workforce when it is not your workforce. I am talking about the council planning the delivery of services. On balance, are ALEOs good, bad or indifferent when it comes to planning workforces?

12:15

**Graham Sharp:** I am afraid that I am going to give you an answer in the same vein as before. ALEOs are varied, and the answer to whether they would be a good or bad thing is situation specific. It will depend on their size and the sort of work that they do.

An ALEO will be more flexible in its terms, which might be a good thing, as it might be able to attract people that the council could not. On the other hand, there is clearly a barrier in relation to total employment and council planning. It is not necessarily as easy to get a handle on the future employment in ALEOs if we consider the matter as a whole. Therefore, if an ALEO is undertaking a high-employment activity, the council might have to work round that to plan its workforce overall.

It is a case of swings and roundabouts. Perhaps Fraser McKinlay will want to add something.

**Fraser McKinlay:** The answer is that it depends. I know that that is not terribly helpful, but it does.

That brings us back to our core point on the matter, which is the central importance of purpose. It is necessary to be clear about why an ALEO is being set up. A council being clear about what it wants to achieve will help it to decide, through a good and effective options appraisal, what the best vehicle for delivery is. In a funny way, the decisions on the Barclay review mean that, if anything, councils will have to think harder about that. In the past, it has been too easy for them to

say, "We get a tax break if we set up an ALEO, so let's do that."

To be honest, in many places, we have not seen terribly much by way of different ways of delivering services. It is just that the leisure services have continued to function as was, but have been getting tax relief. We are encouraging councils to think more creatively about what they are trying to achieve and the best way of delivering it. They will then get to a decision about whether some kind of ALEO might be the best option for that. At that point, workforce issues would be critical to the decision that the councils take.

**Andy Wightman:** Have you found any evidence of better and more effective engagement with social enterprises, for example, through delivering services with ALEOs?

**Derek Hoy (Audit Scotland):** We have not specifically come across that with social enterprises. Nothing that we came across springs to mind.

**Andy Wightman:** Typically, social enterprises are involved in delivering contracted services. Has the use of ALEOs made much difference to that?

**Derek Hoy:** Not that we have seen.

**The Convener:** I apologise for going back to the previous report, "Local government in Scotland: Challenges and performance 2018". At paragraph 41, it says:

"Our analysis by council over the period 2011–2017 suggests that some councils have relied more heavily than others on staff reductions to make savings ... However, because we are unable to track staff moving to arm's-length external organisations (ALEOs), it is difficult to draw clear conclusions about changing workforce numbers nationally."

Why do we not know how many workers there are in ALEOs? Surely to goodness it is just audited and there is an outturn that we can analyse and scrutinise. We are trying to get our heads around the efficacy and benefit of ALEOs but we are also considering workforce planning in the round.

To backtrack slightly, when I look at future local government workforce planning, I want to see the people who are employed directly by the local authority, those who are employed by local authority ALEOs and those who are contracted by the local authority, including third sector and private organisations in the care sector, for example. Do we have a best guess for how many staff are employed in ALEOs?

**Graham Sharp:** That is a fair point on the total workforce.

**Ronnie Nicol:** We are not in the business of guessing, as I am sure you know. We draw our workforce information from returns that are made

and, at the moment, the areas that you mentioned that would be interesting are not included in them. It is simply a matter of our sources. It is not to say that there would be no way of uncovering numbers for ALEOs in particular local authority areas, but they are not routinely gathered as part of the workforce returns.

**The Convener:** Whose job is it to decide what is routinely gathered?

**Ronnie Nicol:** I presume that it is the job of the people who ask for those returns, which includes the Scottish Government, for local government workforce returns.

**The Convener:** So the Scottish Government could specify more granular detail on the workforce that is employed directly by local authorities, employed through ALEOs and contracted from elsewhere.

**Fraser McKinlay:** It could do that. It is more of a question for the Government, but my guess is that some of the definitional issues would be complex because I am not sure where we would draw the line. Councils contract in, and have service relationships with, a huge number of public, private and voluntary organisations.

**The Convener:** What if we stick to ALEOs? I apologise for trying to widen it out.

**Fraser McKinlay:** On ALEOs, we come back to the definitional issues. For example, do we include Lothian Buses? Do we include the people who work for the Scottish Event Campus, which is a wholly owned company of Glasgow City Council? Where do we draw the line? The figures that we referred to earlier, which we get from the staffing watch, are specifically for people who are employed by councils.

There is a slightly separate issue. It is quite tricky to understand the size of the local government workforce as you just described it. However, to come back to the earlier conversation, councils should, on a service-delivery basis, include ALEOs and other organisations when they try to figure out the future for the relevant service and the workforce that they have at their disposal. Therefore, we expect individual councils to have that level of detailed information.

**The Convener:** Are there best practice guidelines for local authorities on workforce planning in relation to that? Who would scrutinise that? It might be the committee—I do not know.

**Fraser McKinlay:** We consider general workforce planning through the best value work. There is statutory and other guidance for councils about how to manage their people. The Care Inspectorate and other bodies would have a strong view about how social care workforces are

planned. It is likewise for Education Scotland. We are interested in the overall approach to workforce planning and individual inspectorates are interested in individual service areas.

**The Convener:** I am sorry to be Glasgow-centric again, but I am a Glasgow MSP. The new administration in Glasgow has said that it will bring Cordia back into direct local authority control. There is a gradual process for doing that. There is also a cash cost of doing it, partly because the process is administrative and bureaucratic and partly because of the terms and conditions of Cordia staff, who are often low-paid female workers. The salary and conditions for the equivalent staff who are directly employed by the local authority are better, so there is a cost of bringing a predominantly female, low-paid workforce under direct council control.

Has the Accounts Commission considered whether one of the reasons for having ALEOs might be to pay workers less and put them on poorer conditions?

**Graham Sharp:** We cover that in the report. I think that there was a legal case that Cordia staff could compare themselves with council staff, although that would not cover absolutely everything, including pension arrangements. It is up to councils to ensure that ALEOs apply appropriate employment policies and we did not find that there was any systematic issue with ALEOs employing people on much less. Is that fair, Derek?

**Derek Hoy:** Yes, across the piece, the evidence suggests that councils are trying to maintain terms and conditions for staff when they transfer over to ALEOs. In the majority of cases that we examined, that was the situation.

**The Convener:** I fully accept that it is a complex debate, because it depends what grading system we use and what equivalences we apply between the local authority and the ALEOs. I know that it is not straightforward, but, when the announcement about bringing Cordia back into local authority control was made, I noted that there was a cost to doing that and that some of that cost was going into staff wages, although I welcome the fact that staff wages were being uplifted.

There is a new process for budget scrutiny in the committee and the Parliament as a whole. We are trying to get a better understanding not only of the inputs—how much money the council gets from the Scottish Government, fees, charges and council tax—but of how to provide better outcomes for the constituents whom we all serve. ALEOs are significant employers even though we do not know how many people they employ. Although those people are not directly employed by local authorities, such as Glasgow City Council, many

ALEOs are, in effect, subsidised by their local authorities. Therefore, in reality, council tax and Government money is being used to subsidise ALEOs.

We have our budget scrutiny ahead of us. How do you suggest that we follow the public pound to ensure that ALEOs are properly resourced to do the jobs that we all like them to do? I ask you to put definitions to one side, Mr McKinlay. I am not talking about the SEC, for example, but care services and leisure services. Back in the olden days, we would just say "core council services".

**Graham Sharp:** As we say in the report, the evidence that we have seen is that ALEOs are providing a good quality of service in a number of areas and, indeed, that their financial return for councils has been good in a number of cases. You said that councils are subsidising ALEOs, but we quote some cases in which, in fact, the funding that the councils provide to the ALEOs to deliver a service that the council would otherwise wish to provide has reduced over time, so the council is getting a benefit from the fact that the ALEO is able to generate other income.

I would not look at the matter in terms of subsidy. I would think about it in terms of what services the council looks for the ALEO to provide, what amount of funding is being devoted to those services and what the quality of those services is.

**Fraser McKinlay:** We are really committed to supporting all committees in the new budget process, so perhaps we can pick up the conversation with the clerks and see whether we can provide anything that would help the committee to get a bit of clarity on the matter. I am more than happy to engage in that conversation, as we are doing with other committees, as you go through the new approach to scrutinising the budget.

**The Convener:** That would be helpful.

On Mr Sharp's response in relation to subsidy, I almost bought into another narrative when I used the term. I get the idea that councils use their funds to deliver services and that ALEOs are part of that service delivery mechanism. If they can do that more efficiently, that is fantastic, but that does not make it a subsidy. It just means that councils are spending the money to provide those various services. That gives me a bit of clarity for developing some budget scrutiny.

I thank all the witnesses from whom we heard over the two evidence-taking sessions, which were helpful for us. We look forward to developing that relationship further to aid us in our budget scrutiny.

We move to agenda item 3, which is consideration of evidence and which we agreed to take in private.

12:27

*Meeting continued in private until 12:41.*



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