



OFFICIAL REPORT
AITHISG OIFIGEIL

Local Government and Communities Committee

Wednesday 25 September 2019

Session 5



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LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

23rd Meeting 2019, Session 5

CONVENER

*James Dornan (Glasgow Cathcart) (SNP)

DEPUTY CONVENER

*Sarah Boyack (Lothian) (Lab)

COMMITTEE MEMBERS

*Annabelle Ewing (Cowdenbeath) (SNP)

*Kenneth Gibson (Cunninghame North) (SNP)

*Graham Simpson (Central Scotland) (Con)

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

*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Vicki Bibby (Convention of Scottish Local Authorities)

Jim Boyle (Chartered Institute of Public Finance and Accountancy)

Councillor Gail Macgregor (Convention of Scottish Local Authorities)

Charlotte McHaffie (Scottish Government)

David Robertson (Society of Local Authority Chief Executives Scotland)

Graham Sharp (Accounts Commission)

Kevin Stewart (Minister for Local Government, Housing and Planning)

CLERK TO THE COMMITTEE

Peter McGrath

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Local Government and Communities Committee

Wednesday 25 September 2019

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (James Dornan): Good morning, and welcome to the 23rd meeting in 2019 of the Local Government and Communities Committee. I remind everyone present to turn off their mobile phones.

Under agenda item 1, the committee is invited to consider and agree whether to take item 5 in private. Item 5 is consideration of evidence that will be heard today in the committee's pre-budget scrutiny. Are we agreed?

Members indicated agreement.

Subordinate Legislation

Tenancy Deposit Schemes (Scotland) Amendment Regulations 2019 [Draft]

09:30

The Convener: Agenda item 2 is consideration of the Tenancy Deposit Schemes (Scotland) Amendment Regulations 2019 [Draft], which make minor improvements to the operation of tenancy deposit schemes to address new legislation, payment by instalments and best practice.

I welcome Kevin Stewart, Minister for Local Government, Housing and Planning, and Charlotte McHaffie, head of private rented sector policy at the Scottish Government. The instrument has been laid under the affirmative procedure, which means that the Parliament must approve it before the provisions can come into force. Following this evidence session, the committee will be invited, at agenda item 3, to consider a motion to approve the instrument.

I invite the minister to make a short opening statement.

The Minister for Local Government, Housing and Planning (Kevin Stewart): Good morning, convener. I am pleased to present the Tenancy Deposit Schemes (Scotland) Amendment Regulations 2019 for the committee's scrutiny. If the regulations are approved, they will strengthen the principal regulations—the Tenancy Deposit Schemes (Scotland) Regulations 2011—and ensure that tenancy deposit schemes continue to work within a robust operating framework.

The original objectives for bringing forward tenancy deposit regulations and approved tenancy deposit schemes were

“to reduce the number of unfairly withheld tenancy deposits .. ensure that deposits are safeguarded throughout the duration of the tenancy”

and

“ensure that deposits are returned quickly and fairly, particularly where there is a dispute over the return of the deposit ... To tenant or landlord.”

Our tenancy deposit regime was established by the Housing (Scotland) Act 2006, which requires ministers to approve schemes before they can protect deposits. Three tenancy deposit schemes were approved by ministers in Scotland in 2012. The 2006 act also obliges ministers to review each scheme from time to time and gives them the power, once they have done so, to ensure that any scheme is revised.

When the schemes were approaching the end of their fifth year of operation, I asked my officials

to conduct a review of the schemes and the operating framework and conditions for the protection of tenancy deposits. The review sought views independently from those tenants and landlords who have used the tenancy deposit schemes and from the schemes themselves. The results of the review were published in December 2018 and I was pleased that it found that the principal regulations continued to provide “a robust regulatory framework”. As expected, the review also found that the regulations required minor updates, not least to keep abreast of our private rented sector reforms.

The regulations that are before the committee today will make improvements to the operation of the tenancy deposit schemes. Those changes respond directly to the review and address best practice, increase efficiency and take account of new legislation, for example by ensuring that information about sanctions is provided by the schemes to the tenant when a landlord has not met the requirement to lodge the deposit within 30 working days, helping us to strengthen enforcement; requiring the landlord to provide the tenant with certain information when the deposit is being paid in instalments; expediting repayment of a protected deposit when the landlord does not wish to retain any part of it; and ensuring that a landlord is not required to pay a deposit into the schemes when a private residential tenancy has been ended and the deposit repaid to the tenant prior to the date by which landlords must lodge the deposit.

Not all of those improvements will require legislation. It is to the credit of the approved schemes that, through lessons learned since start-up in 2012, they can evidence improved performance and internal changes.

In compliance with the 2006 act, I have asked the three tenancy deposit schemes to submit revised procedures to me to ensure that they comply with the amended regulations. I hope to approve the revised schemes soon after the amendment regulations come into force.

Thank you, convener. I am happy to answer questions on the regulations.

The Convener: Thank you, minister. Do members have any questions?

Andy Wightman (Lothian) (Green): Do the regulations strengthen the interests of tenants more than those of landlords, or of landlords more than tenants?

Kevin Stewart: There is a balance to be struck in all these cases, and I think that we have struck that balance. The regulations will ensure that there is fairness across the board.

Andy Wightman: Figure 14 in the “Review of Tenancy Deposit Schemes in Scotland” shows whether tenants and landlords felt that they were treated fairly at the end of the tenancy. Virtually all tenants felt that they had been treated fairly, but a lot of landlords felt that they had not. What was behind that?

Kevin Stewart: There is always a balance to be struck. I did not do the analysis so I will pass over to Ms McHaffie, because her team undertook the analysis of the consultation responses.

Charlotte McHaffie (Scottish Government): There is a challenge around some of the evidence that is required when a deposit goes into a dispute. That is why the schemes have an adjudication process, which exists to resolve such disputes when they occur. The difficulty arises when the landlord has not necessarily gathered enough evidence to demonstrate that the claim for that deposit is sufficient. I think that that is where some of the dissatisfaction with the outcome of the process lies.

Andy Wightman: The regulations will not change that very much.

Charlotte McHaffie: They will not change the adjudication process. The schemes can continue to look at the process and at how information can be provided to landlords at an earlier stage to say what they need to be doing when they set up the tenancy. For example, with the information in the schedule of condition they can demonstrate that damage has been caused by the tenant and that they have a claim to the deposit.

Graham Simpson (Central Scotland) (Con): How would the regulations speed up payment to a tenant when the landlord does not want any money back?

Kevin Stewart: Again, there is a balance to be struck in getting all this absolutely right. The review showed that, in the main, the scheme is working well; that is why only minor changes are being made. A fair amount of scrutiny of the scheme has been done. If I remember rightly, Mr Wightman asked seven parliamentary questions about this not so long ago. As we know from our constituency casework, there is often some dispute about certain things but on the whole I think that the scheme works extremely well. As Ms McHaffie said, there is a process for dispute resolution, which tries to ensure that whoever is owed money gets it as quickly as possible.

Charlotte McHaffie: At the moment, there is a requirement for the schemes to go back to the tenant for confirmation when the landlord has said that they do not want anything, which increases delay. When the landlord is willing to repay the whole amount there is no need to get that confirmation from the tenant, so the deposit can

just be paid back. The regulations will allow that to happen.

Graham Simpson: Okay—so the landlord will not have to go back to the tenant. They will just pay them the money.

Charlotte McHaffie: Yes.

The Convener: Thank you.

As there are no further questions, we move to agenda item 3, which is formal consideration of motion S5M-18218. Minister, do you wish to speak?

Kevin Stewart: No.

Motion moved,

That the Local Government and Communities Committee recommends that the Tenancy Deposit Schemes (Scotland) Amendment Regulations 2019 [draft] be approved.—[Kevin Stewart]

Motion agreed to.

The Convener: The committee will report on the outcome of the instrument in due course. Does the committee agree to delegate authority to me as convener to approve a draft of our report for publication?

Members indicated agreement.

The Convener: Thank you very much, minister. I suspend the meeting briefly to allow a change of witnesses.

09:39

Meeting suspended.

09:41

On resuming—

Budget Scrutiny 2020-21

The Convener: Before we come to agenda item 4, I put on the record, for the avoidance of doubt, that when I asked earlier whether the committee agreed that agenda item 5 should be taken in private, I should have said items 5 and 6. Do we agree to take items 5 and 6 in private?

Members indicated agreement.

The Convener: The committee will now take evidence on its pre-budget scrutiny of the long-term financial sustainability of local government from representatives from the Accounts Commission, the Convention of Scottish Local Authorities, the Society of Local Authority Chief Executives and Senior Managers Scotland, and the Chartered Institute of Public Finance and Accountancy directors of finance. The purpose of this and following sessions is to inform a letter that we will be writing to the Scottish Government later in the autumn, suggesting issues to prioritise in next year's budget. The committee also has a more general and long-term interest in the future of local government funding and finance.

I welcome Graham Sharp, who is the chair of the Accounts Commission; Councillor Gail Macgregor, who is the spokesperson for resources, and Vicki Bibby, who is the head of resources, at COSLA; David Robertson, who is the chief financial officer at Scottish Borders Council, who is representing SOLACE Scotland; and Jim Boyle, who is the chair of the directors of finance section of the Chartered Institute of Public Finance and Accountancy.

I thank COSLA for its submission and I put on the record our thanks to all the councils that provided written submissions in response to the call for views. I believe that Councillor Macgregor wishes to make a short opening statement.

Councillor Gail Macgregor (Convention of Scottish Local Authorities): Thank you very much, convener. Good morning, everyone. We very much welcome the invitation from the committee to discuss in more detail the evidence that has been submitted by COSLA. The evidence has been endorsed by SOLACE and also shares the fundamental messages of the submission by the directors of finance.

In the committee's call for evidence, we particularly welcomed the recognition that the number of responsibilities placed on councils has increased and we are being asked to do more with less. I am proud that independent bodies such as Audit Scotland have praised the achievement of

councils in that context, but I want to emphasise to the committee that the situation is not sustainable.

Already we know that in 2020-21, councils will be expected to deliver almost £0.5 billion of new commitments. Where those new commitments are not funded in full in addition to existing local government budgets, the cost will be more than financial. The cost will be cuts to other service areas that support the vision and ambitions that we all have for Scotland. The reality is that we cannot achieve all that we or that the Scottish Government aspires to achieve, including the outcomes in the national performance framework, without sufficient funding.

That is compounded by the structure of the budget, with increasing ring fencing and national priorities dictating and protecting as much as 61 per cent of council budgets this year alone. That amplifies cuts in the remaining unprotected 39 per cent. Services such as economic development, libraries, employability, leisure and business support services all lie within that 39 per cent and the impact of cuts in those areas is very real to the individuals in the communities that we serve across Scotland. Councils face extremely difficult decisions in setting a balanced budget. I see the impact on individuals and communities in my own council area and I also see the impacts that the cuts will have on long-term ambitions.

09:45

COSLA has agreed four key priority areas for this year's spending review campaign, which include inclusive economic growth, wellbeing, tackling child poverty and tackling climate change. Those areas are intrinsically linked and our message is clear: local government is uniquely placed to tackle those highly complex issues in an holistic way that best suits the needs of local communities, but we cannot do that without adequate and sustainable funding.

We are facing difficult challenges in the coming years, including unprecedented demographic change and uncertainties around Brexit. Demand for council services increases at pace and there is an ever-increasing need to embrace emerging digital technologies.

To ensure sustainable communities across Scotland, local government's unique role in designing and delivering the vital services that underpin and provide the lifeblood to communities must be recognised and invested in. We have to move away from short-term funding, siloed policy thinking and national protections that limit council choice and undermine local democratic accountability. We have to move away from input measures and reporting towards measured outcomes. We must be open and transparent in

the public narrative about the need for service redesign towards sustainable future services.

I am very happy to be here today and I look forward to the discussion.

The Convener: Thank you very much, Councillor Macgregor.

Sarah Boyack (Lothian) (Lab): That was a very useful introduction. You talked about future demographic projections and the pressures that councils will face. Something that comes through in casework is that a lot of those pressures are already here and that we are already in that transition. Can you say a little bit more about how you are dealing with those issues now and how you will deal with them with reduced budgets?

Councillor Macgregor: A prime example is the health and social care sector—obviously social care is a big issue in all our communities. We are very aware that there will be a 3.9 per cent increase in demand for those services over the next 15 years, which will have a massive budgetary cost.

One of the pieces of work that we are doing is lobbying the Government for a recognition that local councils deliver part of the health service. Although we are not part of the national health service, we are a very big contributor to health and wellbeing in our communities. One of our key messages is that, with increasing demographic change and increasing pressures, if local government can be more co-ordinated through our integration joint boards and the health and social care agenda, we can begin to deliver early intervention and better prevention measures, which will have a cost saving in the longer term. If we do not address that now, we will have a ticking time bomb in 15 years and will simply not be able to manage those pressures.

Jim Boyle (Chartered Institute of Public Finance and Accountancy): The projections from National Records of Scotland that gauge changes to the elderly population are quite stark. Let us look 21 years hence to 2040. The number of households in Scotland with people aged over 75 in them is forecast to increase by 72 per cent and in some councils it will be significantly more than that. In West Lothian Council, the number is forecast to increase by 111 per cent. It is not just a long-term demographic problem, however. Statistics provided by the same body show that by 2023, that number is forecast to rise by 17 per cent.

The demographic challenge is with us now and councils have been trying to respond to that as best they can. They have been working latterly with our health colleagues on integration joint boards and health and social care partnerships. The work that has been done to eliminate

duplication and have more integrated care between the two sectors is starting to gain a foothold, but it is still fairly early days for the integration joint boards. Their whole *raison d'être* is to achieve those ends so that we have a seamless health and social care service. I do not think we are quite there yet. There is a long way to go and the onus is on those partnerships to deliver more quickly than they have done thus far.

Part of the issue is that the acute sector is under extreme pressure, and perhaps that is taking away some of the focus and resources that are required to achieve integration. We would like the social care element to be seen more as part of the totality of health. If we see health simply as the national health service, we do the integration joint boards and their aims a bit of a disservice.

We would stress that key point to the committee. It is about the totality of what health is and not distinguishing between local government and the NHS as much as we have done thus far.

Sarah Boyack: In a lot of the submissions, the message comes through loud and clear that we can make an impact through doing short-term practical things such as adaptations. I am very interested in how we pick that up.

The other side of preventative spend is poverty reduction, which is currently going in the wrong direction. I noticed that youth budgets are under pressure. Do you want to give us messages about how we should be thinking about those things in the budget?

Councillor Macgregor: The four priority areas that leaders have agreed at COSLA tie in with the four priority areas that the Government has in its programme for government and the medium-term financial strategy. It is important for local government and the Scottish Government to recognise that those are massive priorities and we have to do them together. They cannot be done in isolation; the four priority areas are intrinsically linked.

For example, in youth services, councils have been very innovative in assisting younger people in the community with meals clubs, including breakfast clubs, to ensure that children are getting a meal a day, but those services have to tie in with family link workers and wider social work so that we are looking at the whole family and not just the child in isolation in the school.

We still have to continue what we are doing at the base. Those services are additional measures over and above the base provision. They are serious interventions that help us to tackle child poverty and wellbeing, and they link across with other areas. If you are helping the child and the family, you are giving them better opportunities for

their life in the community and you are perhaps mobilising them to be able to enter into work.

That activity cuts across all our priority areas, but it cannot be done without investment. Councils have been very quick to invest in children, but that has to be done as part of the totality of all the services that can assist the family in the community.

The Convener: Not everybody need answer every question. Only those who have something new to offer should answer, otherwise we will be stuck here all day. Does anybody else want to come in on this question?

David Robertson (Society of Local Authority Chief Executives Scotland): Councils wish to see a whole-systems approach being taken to design and funding of health and social care services. Councillor Macgregor mentioned mental health. The recent initiative on school counselling services has been welcomed by councils, but if there are not support mechanisms for young people's mental health through the national health service, that leads to many further problems down the line, which we have to deal with across the public services. We want to see health and social care managed as one and a unified, whole-systems approach to funding.

Sarah Boyack: My third question, which is partly about prevention and partly looking to the future, is on how you are planning for climate change. I have an issue regarding what happens if we leave the European Union, but I will focus on climate change, because we are debating that this afternoon and it is likely that we will have a tougher target.

The question is about both mitigating the existing impacts of climate change and planning for the future. My first two questions were about demographic change, and presumably there is huge pressure in that respect already. How are you picking up the new challenge of climate change, given that you have reductions in planning and transport budgets and pressures on waste management? Community heat networks are not currently a core issue. It is a massive agenda, so how are you balancing the current challenges with the need to change and provide new services in the future?

Councillor Macgregor: You have summarised the challenges quite well there. Jim, do you want to pick up on that?

Jim Boyle: A range of measures are being undertaken by councils. A number of councils are participating in the extension of the vehicle charging network across Scotland. I know that my council and Dundee City Council are playing a very active part in facilitating that, which will hopefully stimulate the demand for electric

vehicles. There are many other measures in place regarding how we manage our buildings, with the conversion from coal and gas-fired boilers to biomass boilers and so on. A number of initiatives have been focused on smaller buildings, but clearly the challenge needs to be faced in a whole-systems way through the national energy strategy.

I know that a number of councils are looking to take a carbon-neutral approach. We are probably some way off being able to establish where each council is on carbon neutrality. The first step would need to be an assessment of how far we are from it and what measures need to be put in place.

Some measures are already being put in place. The challenge is clearly significant, and a lot of those measures will require funding support from the Government, which I know is being provided. The vehicle charging network is substantially Government funded, although councils are providing some funding for that as well.

Councillor Macgregor: It is important to stress that the jobs that have been able to contribute to climate adaptation, such as those that look at councils' economic and planning challenges, have often sat within the 39 per cent of budget that is not ring fenced or statutory and is essentially unprotected. It is fair to say that when we have been protecting budgets in education and social care, it has often been at the expense of the very people whom we need now to help us to deliver on climate adaptation and the climate change agenda. We will have to invest to put in the capacity to ensure that we are able to meet those targets. We have taken people out of that area, because it was within our unprotected budget. That will need to be addressed and there will be a cost implication of that.

Graham Simpson: I will come on to IJBs.

Mr Boyle mentioned electric vehicles and vehicle charging points. I was speaking to a friend who has an electric vehicle and who took the radical decision to travel to Skye from North Lanarkshire, which is a long way. There is an app that people can use to find out where vehicle charging points are. He went to one: it was broken. He went to another: it was broken. At that point, the juice was getting quite low. Apparently, such things are quite regular. I do not know who funds charging points, but they are free to use. It is not like having a petrol car, for which you have to pay to top it up. Is there an issue with funding and maintaining vehicle charging points? There certainly do not seem to be enough of them to get people to switch.

10:00

Jim Boyle: The network of charging points is being expanded. The Government has plans to

work in partnership with local government to do that and to provide, at the very least, a backbone of charging points up and down the country, but also to go further out into council areas. The demand for electric vehicles will pick up pace only if the network and the infrastructure are capable of supporting that. People will vote with their feet in the meantime.

There is clearly an onus on both levels of government to expand that network to the point at which there is public confidence to invest in the technology. We are at an early stage in providing that network, and there will be a significant capital cost implication. Some funding has been provided, but massive expansion of the network will be required in the years to come.

Graham Simpson: Are councils responsible for installing the charging points?

Jim Boyle: There is significant central Government intervention through provision of capital funding to partly fund points. Most recently in my council area, the Government provided 70 per cent of the capital funding and the council provided the rest. A number of bid schemes and funding pools are available to councils to expand the network in their areas.

Graham Simpson: Who maintains the charging points?

Jim Boyle: The council does that.

Graham Simpson: The council maintains the charging points.

Jim Boyle: Yes.

Graham Simpson: So, if the charging points break down, is it the council's fault? "Responsibility" might be a better word.

Jim Boyle: That is the council's responsibility. It is another pressure on revenue budgets. Funding bids are supported only if there is a sustainable business case. Bids are lodged by councils, so there will be income generated from many charging projects through selling electricity to the grid and to local businesses and so on. There should be a sustainable business case before funding is awarded.

Graham Simpson: If people are not paying to charge their cars, where is the on-going funding for maintenance coming from?

Jim Boyle: The funding would be from any other generation income sources that can be made through selling to the grid, selling to local businesses and so on.

Annabelle Ewing (Cowdenbeath) (SNP): Did your friend get to Skye?

Graham Simpson: They got to Skye eventually, but had to join a queue at the next charging point.

I will move on to IJBs, on which a number of witnesses have made submissions, including the finance directors. I think that includes you, Mr Boyle. A number of submissions said basically the same thing, which is that there are funding pressures. The finance directors' submission says that there is significant financial stress in the partnerships, and that

"There is little evidence thus far that resources and funding are moving to any great extent from acute health care to community health and social care."

It strikes me—going back to what Councillor Macgregor said at the start—that maybe people are still working in silos a bit, and that councils are perhaps the junior partner. I know that the Accounts Commission is doing a piece of work on that and has already done some, so Graham Sharp might want to come in on the subject.

Jim Boyle: I will open. The integration joint boards have existed only for three or four years, so they are still in the early days of forming and of moving forward on what will be a medium-term and long-term agenda. It is possibly unrealistic to expect the full extent of integration to have bedded in and to have been implemented by now.

However, up and down the country we have seen financial stress in quite a number of integration joint boards, which is causing financial difficulties. The reason for setting up integration joint boards and health and social care partnerships was to shift the balance of care from acute care to the community. Clearly, that would not happen on day 1, and we would not expect the full extent of funding to shift from the acute sector to the community sector. We should stop talking about the separate sectors, because our doing so encourages the continuing division between acute care and community care.

There are many reasons for the financial difficulties. One is the desire, that I am sure we all share, to not have people sitting in hospital who could be in a community care setting. The pressure to reduce bed blocking and delayed discharges as much as possible is something that we all support. However, that is also putting pressure on the ability to provide community care within partnerships. The acute sector is still facing severe financial pressure. It is difficult to achieve the shift of funding from one sector to another, so the care element of partnerships is having severe difficulty in funding provision of care, whether that is long-term care through care homes or care at home in the community. There is widespread incidence of such pressure.

Councillor Macgregor: In last year's budget discussions, we discussed ring fencing of funding

for IJBs and health and social care partnerships. We need to grasp that we need more flexibility with funding that sits within IJBs, so that it is not holding councils to doing certain things in their areas. The flexibility last year in the £160 million that was ring fenced was useful because it meant that local councils could utilise the money in a much more localised way—although I stress that it was not additional money, but money that was already in the system, so it was about how we were able to use it. That discussion has to continue: the pressures around ring fencing are very restrictive for councils, as we find that perhaps money is moved more towards health than towards councils.

The Convener: I think that I might have had to get clarification on this before. When you talk about ring fencing, do you mean for core services?

Councillor Macgregor: No—we mean activity over and above core services.

The Convener: Such as?

Vicki Bibby (Convention of Scottish Local Authorities): Last year there were new commitments that were to be funded from the budget. Frank's law was one. The IJB was funded for that but the council was not allowed to reduce its budget contribution to the IJB. Monies that are going to local government for specific purposes, such as Frank's law, are ring fenced, but on top of that the whole social care budget is, in effect, being ring fenced because the commitment means that councils are not allowed to make reductions in that sector. The question is about use of the phrase "ring fencing". There is a legal aspect to ring fencing in its traditional sense, but the funding is not ring fenced in a legal sense through the budget, but through a commitment that says, "You will get this money if you deliver on X".

The Convener: You are being given extra money to perform an extra function. I am not sure what the issue is with that.

Vicki Bibby: Local government has absolutely no issue with getting money to perform additional functions, but what happened last year—we hope that it will not happen this year—was that councils got money for one area but it had been taken from another, so the net effect was no increase.

The Convener: What you seem to be saying is that you are not getting extra money to do something because it is taken out of your budget. Maybe it is just me, but I do not really understand what you are saying.

David Robertson: While money is being directed to specific policy initiatives to enhance services, councils are seeing the core funding being eroded to support additionality. Core funding is being eroded through the requirement to

support additional services with it, and through real-terms reductions in funding to support core services.

The Convener: We are coming back to the whole funding issue, in which the Government says that there has been a 2.9 per cent increase and you say something else entirely. We could go round in circles all day. Funding is an issue for every level of government and every organisation in the country. We could spend a considerable amount of time on that, but it will not get us much further. The point that I am trying to make is that I do not understand how getting extra money for something is a burden.

Councillor Macgregor: The money is in the totality of the council budget—it is not additional money. It has been set aside for a specific purpose, but is not additional to the budget.

The Convener: I know that I am going on about this. What you are saying is that you would have exactly the same money if you had not got the extra money for Frank's law? Maybe you can come back to us on that, because I am confused. You are saying on one hand that you are getting extra money, but you are also saying that you are not getting extra money because it is coming from elsewhere in your budget. Let us move on.

Graham Simpson: My point is that the boards are called integration joint boards but they do not appear to be very integrated, at the moment. It appears to me from the submissions that we have received and from previous evidence sessions that money is still being spent on acute services and less on the adaptations that Sarah Boyack mentioned earlier, which would ultimately help you to save money in the long run. Is that an accurate description?

Councillor Macgregor: Yes.

Graham Sharp (Accounts Commission): The Accounts Commission has the responsibility for auditing IJBs, and IJBs have a duty to seek best value. Because of the nascent state of IJBs and the time that it is taking them to grow into the role that was set out for them, we have, until now, had across-the-board performance reports that we have done jointly with the Auditor General for Scotland, because integration involves the health boards as well. The second of three of those reports came out at the end of last year and, I think, set out the issues well; there are a number of issues.

There are a number of good things going on, as well. The good things tend to be relatively small-scale projects and are spread throughout the country. Some boards are doing much better than others, in that respect. There has not yet been any large-scale major change in respect of £8 billion to

£9 billion of public money moving from acute care to preventative care.

In our overview report last year, we came back to IJBs and set out the three areas that could be seen as causing particular issues—governance, finance and leadership. I would like to comment on two of those.

As we have said, leadership is absolutely critical in IJBs to bring integration together and to push forward what are, essentially, transformation programmes. One of the problems has been the difficulty in building leadership because of very high turnover in the senior management teams in IJBs. Clearly, that is a problem, and it is perhaps also a symptom of another problem in that people find it difficult to do the jobs that they are trying to do because of other issues.

That is where I turn to finance. Making both the sort of transformation programmes that are involved and the very significant movement of resources from acute care to preventative care work, is a long-term project, for which you need medium-term and long-term financial planning. That is not happening.

I think that that goes back to the partners and the different budget constraints with which each partner works. They have different cultures and different reporting mechanisms. The system needs to be unblocked to enable IJBs to take more control of asset deployment and to bring in leadership to prepare proper plans for the future. We see that happening now more than it did in the past.

In the next audit cycle, which will be in 18 months or so, we will do specific best-value reports on IJBs, as part of the annual audit. There will not be separate BV reports, but the annual audits will look specifically at best value in order to reflect what we expect, which is for IJBs increasingly to grow into their role.

There is a lot to be done. I highlight financial structuring and IJBs getting to a position in which they can deal with their financing and have a working set-aside situation, for example.

10:15

Graham Simpson: I know that you want to move on, convener, but I find the situation to be immensely frustrating, and nobody seems to be doing anything about it. We have heard time and again in committee about people working in silos and nobody taking responsibility. I am not laying the blame at anyone's door, but somebody needs to get a grip and sort out the situation so that there are proper integration boards, and people are not just, to be frank, looking after their own empires.

The Convener: To be fair, I note that the committee has shown a great deal of interest in IJBs and will be looking at them again because points that have been raised by the panel are recognised by members.

Alexander Stewart (Mid Scotland and Fife) (Con): Councillor Macgregor, in your opening statement, you gave a very good overview of where we are. You talked about doing more with less, but you also said that there are new commitments and new priorities and that things are not sustainable going forward. Every council has looked at efficiency savings and some have also looked at redesign, but within that redesign there have been some difficulties with managing to keep things going. You talked about libraries and recreation and leisure services being removed. How have efficiency savings helped to improve service delivery and mitigate some of the challenges that you talked about? How have councils managed to do what you want them to do and what they are trying to achieve when they look at efficiency savings?

Councillor Macgregor: Councils have been very good at reacting to on-going budget savings over a long period, and they have had to remodel in a number of areas over a long period. The issue is the sustainability of that.

We have developed services. We have the regional improvement collaboratives and we have better examples of cross-council working, but we can no longer sustain what we are doing and commit to the priorities in the national performance framework and the additional national policies that Government brings forward. We are in a bit of a perfect storm. Councils have done fairly well in continuing to do the day job, but we will begin to struggle with all the additionality on top.

We are very good at being creative in our approach. We are looking at digital transformation, which will assist with some transformational change in councils, but a lot of that work—again—needs investment.

The fundamental problem is that we are still working with one-year budgets, so we are working cap in hand and year on year. If we had three-year budgets and greater fiscal certainty, we would be more able to forward plan. At present, for both revenue and capital, it is difficult to do long-term planning, true transformation and money saving because we are working from year to year. My colleagues will be able to give more examples.

Jim Boyle: Councils have been balancing their budgets for a number of years. No council has not balanced its budget in recent years. That has been achieved through a combination of means. There has been a lot of what we have termed “efficiency”. Some of that has not been what I

would describe as efficiency, but has involved pressing down on budgets as much as we can, pressing down on inflationary provision and taking out areas that may impinge on service delivery.

Each year, we produce an efficiency statement that is submitted to the Government. Recently, there was a discussion about that among the directors of finance, and we feel that it is time to stop providing that statement because it is potentially creating a false picture of councils’ financial positions. We have taken all the—I hesitate to use the word—easy efficiency measures. We have taken a range of things out of our budgets over the years. There has been some service reduction and some service cessation. That has not happened to a massive extent such that the public would notice, but there have been reductions in service and I would not wish to underestimate the impact that they have had on individual councils and communities. There has also been a bit of service transformation.

The reality is that the efficiency measures that could be taken have pretty much been taken and it will be extremely difficult for councils to balance budgets through efficiency measures in future years. I suggest that it will not be possible through the means that we have used in recent years.

The production of efficiency statements has probably been to our detriment and has not created the right message or the right picture of local government finances. The directors of finance speak to one another regularly and I have detected a common message across most councils that that is the position that they are in.

Graham Sharp: In our reports, the Accounts Commission has recognised the good work that councils have done in managing to maintain service levels with increasing demand and reducing resource. At the same time, we have recognised that what one might call efficiency savings have a limited life and that what is needed to provide a sustainable service is transformation and the changing of business models. That is a longer-term project that requires people to look at outcomes and work with communities and partners, and the timescale for that requires medium and long-term planning.

Nearly all councils now have medium-term plans, but only just under half have long-term plans and only a third have scenario planning. We need to push that forward. That is undoubtedly a significant challenge, and anything that can be done to assist councils in that regard—for example, a three-year look ahead from Government—would reduce the risk that councils incur in having to make medium and long-term plans, so it would be welcome. Medium and long-term planning is needed because councils need to change their business models. It is not just about

promoting good practice; it is necessary to make the thing work.

Alexander Stewart: You are suggesting that councils have been forced into some of those planning scenarios because they have had to accommodate the savings. We know that councils across the board have lost hundreds, if not thousands, of employees in order to try to manage the situation. Sometimes the biggest cost in a council is the wages bill, so when you talk about doing more with less, it is fewer people and sometimes less money that you have.

Some people have said that the focus should have been the transformation strategy rather than efficiency savings. It would be good to know your views on that.

David Robertson: As far as we know, all of the councils have transformation programmes in place, and they are looking across the range of services that they deliver to try to improve outcomes for local communities. That is what we are all about, but we are having to do that against the backdrop of a very tight financial environment.

The reality behind council budgets is that a greater percentage of spend is being consumed by the priority services of education and social care, so it is the other services—the quality-of-life services that people see around roads, refuse collection, parks and so on—that are starting to take quite a lot of pain. What we are saying is that there is limited capacity for us not to invest in roads or cut the grass, and there are limited things that we can do in areas such as recycling, where we are all pushing for improvements in the recycling rate.

We are all investing in transformation of services, but we all recognise that it takes time, so long-term financial planning is essential. The key message from councils is that a long-term approach from the Scottish Government to the funding of local authorities would be hugely valuable in assisting us with that process.

Alexander Stewart: You say that the situation is unsustainable. The system is cracking up and falling apart to some extent. Councils are trying to manage that collectively and are being responsible about what they are managing across the piece, but unless there is a dramatic change and a fundamental move to something different, we will continually see the withdrawal and removal of services that councils have normally been involved in. The third sector has an input, too, because it has taken on some of the burden that councils have had to relinquish.

You have given us a clear picture of where you are. You are trying to manage the process effectively and efficiently, but there is still a need to develop a better strategy. All councils have a

reserve or a fund that they keep for a rainy day, but it would appear that we are not in that situation—we find ourselves with a howling gale. What is the next step? What do you see as being the responsibility of your organisations to ensure that the input of the Scottish Government and the Scottish Parliament makes things better?

Councillor Macgregor: We need better forward planning, longer-term budgets, greater collaboration with Government on the policies that it wants to introduce and much greater and earlier discussion about how we can deliver on them.

We have got into a cycle of initiative-led budgets. Pockets of money come forward for short-term initiatives for a year or two years. They may or may not have value at the time—we can argue about that on another day—but the approach hampers our ability to do longer-term planning, because we are continually just trying to tread water. We are unable to think ahead and plan for the longer term. Initiative-led budgets are problematic. They are great as sticking plasters at a particular moment, but they do not give us longevity for a longer-term service.

The remodelling of services in councils, which is going to be essential, has to be done with much more collaboration with the Government and much more discussion early doors as to the long-term sustainability and the values and outcomes of projects that come forward.

Alexander Stewart: Do you think that the 32 local authorities will manage to survive?

Councillor Macgregor: I would hope so. Yes—absolutely.

Alexander Stewart: Okay. Thank you.

The Convener: We will move on swiftly. *[Laughter.]*

Andy Wightman: COSLA states in paragraph 29 of its submission:

“The committee may also wish to note that the Scottish Government has set out its intention to decouple revenue from capital budgets in the event of a three-year local government settlement.”

Will you say more about when that decision was made and why?

Vicki Bibby: That was part of the medium-term financial strategy at a time when we were potentially going to get three-year budgets. We do not know what is happening with that. We were advised that there was potential for three-year revenue budgets but that, because the infrastructure commission would not report until the summer, there would be no further information on capital budgets until then.

Local government has raised the concern, which is set out in the paragraph that you quoted, that

we do not operate siloed revenue budgets and capital budgets. They are very much linked. A programme might have some capital investment, but a lot of it might come from the revenue side of the budget, so there are implications for both. That decoupling is therefore a concern.

We might just get another one-year budget anyway—we do not know about that. What we are saying is that, if we are to have long-term budgets—that would be helpful, as we have just discussed—they should include the revenue and capital together.

Andy Wightman: In last year's budget, my party reached an agreement with the Government—I have the agreement here—that there would be

“a three year funding settlement for local government, along with a supporting rules-based framework.”

We have that agreement. If it is going to be breached, that will have big implications for the forthcoming budget, because we expect agreements to be delivered.

The decoupling has been announced in the medium-term financial strategy. Has it been directly communicated to you by letter or anything like that?

Vicki Bibby: Not by letter or anything, no.

Andy Wightman: Mr Sharp, Audit Scotland produced a report back in October last year saying that the NHS is not financially sustainable. What is your view as to the financial sustainability of local government?

10:30

Graham Sharp: I have already commented on that, and our more detailed comments are set out in our reports. A change is needed in the way things are done. You cannot just keep doing things in the way they were done before and look to make efficiency savings; that is not going to work. There is scope to improve. We believe that the performance differences between councils are not all explained by contextual differences. As we carry out work in individual councils, we see that there is scope to improve. Clearly, there is also scope to do so using new technologies and techniques. I know that councils are pursuing all that. What we have not said—and would not say—is that, by doing all those things, councils necessarily bridge the future projected gaps between demand and resource, although obviously it goes some way to bridging those gaps and improving outcomes.

Councils have performed well in the circumstances they are in, but they need to change their ways of working in the future. We will keep that under review. We are not necessarily in

the position that is reflected in the NHS. The NHS is not my area and I would not comment on it, but commentators have projected that over half the total Government spend will be going to the NHS in the foreseeable future, based on existing business models; we can project that sort of thing and say that it cannot keep going on like that. We are not in that position in local government, but it is very challenging. I am not saying that it is not sustainable, but there needs to be significant change.

Andy Wightman: We have already talked about IJBs. The projections for the NHS are certainly worrying, but one of the policy responses to that has been to do much more preventative spend. The theory is that, if people are healthier, we will reduce spending on the NHS. How much work is being done to make preventative spending work? Often a number of different public agencies are involved which, as Mr Sharp pointed out earlier, have different ways of budgeting and different accountability rules. For example, if a local authority or the police service comes forward with an innovative way of doing something that costs £500,000 and it saves other public authorities, and perhaps even the private sector, an equivalent sum of money, how do we make the accounting for that work so that public authorities—local authorities are key to this—have the incentive to begin to do things differently when the financial benefit may accrue to other organisations?

David Robertson: As an accountant, I would say that sometimes accounting gets in the way. As public authorities, we need to look at the big picture and at where we need to be investing in preventative spend. A recent very good example in the Borders is that we are now funding two community action teams for the police directly from the council budget, because we recognise the impact that that can have on the quality of life in local communities. Those people are dealing with antisocial behaviour, parking offences, littering and dog fouling—the kind of issues that have an impact on community quality of life. The council could have stood back and said, “Policing is not our problem,” but we have taken the view that it is so important that we will invest jointly in those services and the council has agreed to fund them at the cost of around £500,000 a year. Looking across organisational boundaries and not letting the accounting get in the way of such things is important.

Andy Wightman: But you are saying that accounting gets in the way.

David Robertson: The reality behind the structures that we have across public services is that accounting tends to get in the way of such things, because we all want to know exactly what something cost and whose budget it came from.

We need to look more across the public sector at where initiatives can make a genuine impact.

Andy Wightman: So we need a big integrated IJB.

David Robertson: Some big thinking, yes.

The Convener: I think that Mr Sharp is horrified by that suggestion.

Graham Sharp: First of all, I think that councils recognise that they have to work in partnership with other bodies to achieve outcomes. Where you are talking about initiatives within a council area, things such as working with the police or working with other bodies can work well and the strict accounting of precisely who is paying for what does not necessarily stop an initiative that works for everyone.

When you upscale that work to something like joint boards, which involve major amounts of money and major investment, if the reporting structures, incentives and budget rules for the different bodies are quite different, it can become quite a challenge if you want to take money from one place to spend somewhere else. There will be an overall benefit, but there might be a time lag in seeing that benefit. How do you capture all that and put it in a business case in two quite different structures? That is different from the smaller situations, which can be handled within a council area or across two council areas.

Andy Wightman: You talked about councils doing medium and long-term budgeting, and I think that you said that a third are doing scenario planning.

Graham Sharp: Yes.

Andy Wightman: It has always intrigued me what that information is based on. I am looking to the finance people working at the coalface to answer. Presumably, that is based on forecasts from the Scottish Fiscal Commission, the private sector and the Fraser of Allander institute, medium-term financial forecasts, National Records of Scotland population forecasts and so on. Is that broadly correct?

Jim Boyle: All those sources and many more. As the chief finance officers of councils, our job is to advise our councils of what the landscape looks like both for the coming year and for years to come. Clearly, the difficulty is the lack of certainty of the many components that feed into the very complex financial picture that councils have to paint and then deal with. The Government grant represents about 80 per cent of the funding for revenue services in any given local authority. Knowing that for only one year is problematic. In all our submissions, we have expressed a strong desire for longer-term grant information from the Scottish Government, even if it is just provisional.

We recognise the uncertainty that the Scottish Government and, for that matter, the United Kingdom Government operate in, and we are aware that there is no absolute certainty in public finances, but knowing a provisional picture is better than not knowing anything.

That said, we have to stick together over the assumptions. We do not know what pay awards are going to be, other than the current negotiation settlement, so it is a complex picture. We look at a very wide range of sources; we are trying to read the runes of what all those pieces of information are trying to tell us. As Graham Sharp has outlined, many councils have set out five or even 10-year outlooks. We have done a 10-year outlook in my council and I acknowledge that, as we get beyond years 1, 2 and 3, many of the assumptions become a bit of a wet finger in the air. However, if we constantly update that, we can have a fair idea of what is coming over the horizon, which is better than no idea. We draw on a wide range of information and we also have regular formal and informal discussions with the Scottish Government.

Andy Wightman: Finally, I want to ask you whether councils are able to raise enough income locally. One of the responses—I cannot remember which one—describes things such as the new transient visitor levy as being not a panacea. The levy will take some time and is quite modest in the bigger scheme of things. Your council tax is capped and you do not set non-domestic rates, so do you have enough autonomy to be able to respond to the challenges that may emerge in years 2 and 3, when you find you have shortfalls?

Jim Boyle: There is a wide range of powers available to local authorities. The issue is that some of them are constrained in a fairly significant way. I do not just mean on the revenue-raising side. We have had a lot of discussion about the transient visitor tax and I think that nationally we are not quite there yet with that. Obviously, a range of views has been expressed about it. Not all councils would be able to benefit from it in any case and the difference that it would make to some council areas would be insignificant. It is certainly not a panacea to balance budgets; it would be part of the picture.

If councils had less constraint on the ability to raise revenue, that would help. If councils had greater freedom to raise or reduce council tax, that would help. If there were fewer constraints on our spending decisions, so that, for example, we were able to drive efficiency or transformation in the education sector rather than focusing on teacher numbers, that would help. There are a number of powers that are not fully available to councils at the moment. It would certainly be our plea to the

committee, the Parliament and the Government to make some of those powers more available.

There will be other revenue-raising powers that I am sure councils could take advantage of and implement. The picture, in terms of both the revenue side and the spending side, is that, if greater freedoms were available, it would make the balancing of budgets more tenable.

Annabelle Ewing: Good morning, panel. We have been having a very interesting discussion. I will pick up some of the issues and develop them forward, or at least think about how things could look further down the line. I take what you say about looking two to three years ahead, but let us go a wee bit further into the future.

It has been mentioned that the priority services of education and social care take up the lion's share of the budget. Do any of the panel members foresee a time when education, for example, is not provided in the way that it currently is and central Government takes a greater role? When you forward plan to look at 10 or 20 years from now, what do you foresee in terms of service provision? Do you see the status quo, or do you see something different?

Councillor Macgregor: That is a very difficult question in the current political climate. It is very difficult for any of us to predict long term. I hope and anticipate that education will always sit at the heart of local communities. I think that the best people to deliver education in their communities are local communities. I would not like to see too much more central Government intervention in what should be delivered at local level, but there are challenges. Historically, councils have dealt with those over the past few years and we have seen savings in schools. Education budgets have not been immune to savings, but those have been at a fairly manageable level. Some schools are now operating for only four and a half days a week, whereas previously and historically they were operating for five.

What we have to do, though, is look at what children need through their education. That is the key factor. We need to look at what outcomes we are trying to achieve, what the best start for those pupils in schools is and what the best way to deliver that is. I think that councils will continue to do that. There is no question but that education and social care will remain at the top of any agenda—of course they will. How we manage that will probably be with more collaboration with the Government, but I hope not too much more intervention.

Graham Sharp: I will not comment on the policy aspects, because we take this sort of policy as fixed, but I will make a couple of observations about outcomes. Schools and education integrate

with other things that are happening in local areas concerning outcomes. For example, we produced a report last year on young people's mental health and on how schools function in the area. The social care in the area and the facilities for supporting mental health are very important, so anything that changed in schools would have to be able to maintain how schools integrate with that.

Going the other way round, I note that we will be producing an education report next year, but I think that it is clear that educational outcomes do not depend on the number of teachers and the number of school buildings alone. There are other environmental factors that are important, such as deprivation, economic activity and the cultural environment in which the young people grow up. Those are local and they also contribute to outcomes. Without commenting on whether how education is structured is good or bad, I just note those crossovers when we are looking at outcomes.

10:45

The Convener: To be fair to Ms Ewing, I think that she simply gave an example of something that might change. She was not suggesting a change.

Annabelle Ewing: No. I was just floating an idea out there.

As the convener said earlier, we could spend the whole time in this debate talking about core ring-fenced funding and the fact that there has been a 2.9 per cent uplift in real terms from the Scottish Government in 2019-20, but I want to widen out the discussion and look further into the future.

I want to pick up on the issue of the number of local authorities, which Alexander Stewart referred to. I am not saying that this is his political position—he is now looking at me anxiously. Councillor Macgregor was bullish and said that there will, absolutely, be 32 local authorities in the future. Do the panellists think that 10 or 20 years hence, for example, 32 local authorities for a country of 5.4 million people would be the best use of the public purse?

Councillor Macgregor: I am the only politician at the table, so it is probably incumbent on me to answer that question.

We have seen a lot of centralisation in the 12 and a half years in which I have been a councillor. Prior to my days as a councillor, there were district councils, and things were truly delivered locally. I still maintain that, although we need overarching national policies and a statutory function that we all adhere to, local people deliver best. I think that we sometimes create best value for money, but

councils potentially need to work better in partnership with other councils. Digital technology will also enable us to do that. However, I still think that local services, local councils and local government are local matters and that, if we continue to centralise them, we will get further away from the people whom we are trying to assist locally.

That is the politician's answer.

Jim Boyle: I will not necessarily comment on the need for 32 councils. However, there is no doubt that greater sharing of service provision across councils and partners in other parts of the public sector and potentially the private sector is inevitable.

We have spent quite a bit of time talking about the health and social care partnerships. I will not reopen that discussion, other than to say that it has been difficult. Historical delivery structures have been opened up and historical positions are starting to break down, but losing the identity of funding, for example, is difficult to accept. That has been a difficult issue to crack, and it has not been cracked yet.

Equally, brave decisions will need to be taken in order to deliver shared services across local government. Some of the decisions relating to the integration joint boards and the partnerships will be to do with improved outcomes that will not necessarily become apparent for years down the line. Those brave decisions need to be taken now. The shared delivery of services across councils or other partners is about letting go of control and sharing service provision with other partners in the public sector, whether in the back office or at the front line. That will present challenges in control and where employment opportunities sit, but it is inevitable, given the picture that we have tried to give the committee. Local government finances are not at the point of being unsustainable, but they are under extreme pressure, and one of the ways of cracking that particular nut will be to have greater sharing of service provision across the 32 councils.

The way in which the issue has been framed is quite appropriate. We are a smallish nation, and we have 32 councils. Can we have 32 levels of service provision for each and every service that we deliver? Probably not.

Annabelle Ewing: That is very interesting. I was going to get on to the very important issue of cross-council working.

I go back to Councillor Macgregor's point. The point has been made in many quarters over many years that there is a considerable duplication of senior posts in the 32 local authorities. That is a cost, and it reduces budget that is otherwise available.

Mr Boyle made a point about trying to look at the service. Given the financial challenges, we cannot expect each individual service to be provided in the traditional model of 32 local authorities.

How can we get to a better place? How can we drive forward cross working? We have seen that some IJBs are going very well and some are not. That has been discussed. How can we drive forward work across local authority boundaries and, indeed, wider cross working across the public sector? We can talk about it all we like, but how can we make it happen? What kind of things do you foresee being required to make that happen?

Councillor Macgregor: You have made some incredibly good points. That gives us all much food for thought, although we think about the issue anyway.

Localisation is key, but it is a matter of working alongside all our third sector partners. It is a matter of working alongside the charity sector, the voluntary sector and agencies. Councils have been very good at transforming and reshaping departments but, as you have said, we are talking about only senior officers at the top level, and that is not what we deliver through to outcomes. We will have to continue to work less in silos, as Graham Sharp said earlier on, and be a little bit less protective of our accounts and a little bit more collaborative. We need to accept that there has been duplication in some of our communities. We might deliver something at the council level and find through an audit that a third sector organisation has also been doing that.

Another piece of work that we are doing in COSLA is looking at historical ring fencing or initiatives that were put in place maybe 10, 12 or 15 years ago which had great value at the time and have continued to sit there while other things have been created. It is about looking at what we do well, and acknowledging that we can make really good decisions locally because we understand our demographic. We know that the centre of Glasgow is completely different from Newton Stewart, and that is incredibly important. It is about looking at what we do well, but auditing where we can do better and utilising skills and other agencies in the area to help us to deliver more collaboratively. As has been said, we should not work in silos. Every agency has been guilty of that in the past. It is really important that we open our doors.

Vicki Bibby: There is a consensus that place-based approaches will go a long way to improving outcomes. To answer the question, leadership is a key part of that. COSLA is working with the Scottish Government and all the organisations in the senior leadership forum to explicitly have discussions about how we can create capacity

around place-based transformation. Those discussions are happening, and I hope that the leadership push behind that will result in all the sectors coming together on that issue.

Annabelle Ewing: That is a positive. Obviously, however, time marches on.

My last question is for Mr Sharp. I take it that, if there was much greater sharing of service provision and delivery, a slightly different approach would be required by the Accounts Commission. How would the Accounts Commission adapt to that new world?

Graham Sharp: If that was in councils, it would fall completely within our powers, so it would not necessarily raise an issue. We might have to think about exactly how we cover that in different reports, but we already have the issue of how we deal with councils working in partnership outside councils to deliver services. The way in which we have dealt with that issue up until now has been that, when we have considered best value reports, we have looked at things that are strictly outside the council's ambit, if we took the powers as a sort of barrier that we could not penetrate. We look at what is happening. We could get to a point at which we would want to look at the matter and say, "To do this properly, it would be helpful if we had the power to do more." That might happen in the future.

There is another thing that we are doing more. We talk about this in the strategic scrutiny group, which is the group of all the scrutiny bodies that deal with local government; I chair that group for the Accounts Commission. We are working together on where that group might have a wider scope and might be able to look at aspects of a service that we cannot, which go outside the councils themselves. There are things that we currently do to look wider than the limits of what the council does to embrace partnership working. At the moment, that is adequate but, depending on how the future develops, we might need to look at that again.

Kenneth Gibson (Cunninghame North) (SNP): Good morning, panel. I always find discussions such as the one that we have just had quite frustrating. I was a councillor in the 1990s when we had the last local government reorganisation, when 53 district authorities, nine regions and three island authorities became 32 local authorities. Some of them, of course, should not have existed—they were created for purely political reasons.

I would have thought that the way forward, for example in Ayrshire, would be to merge the three local authorities into one, along with the health board, and that single authority could be responsible for health, social work, education,

economic development and transport, with the devolution of powers down to borough councils to deal with everything from potholes to libraries, local planning and so on. I dare say that I will be stymied on that front for another few years, because I do not think there is much appetite for local government restructuring.

What do we do with the system that we have now? First of all, I think that we have to find out what the ask is. If we look at the financial context, both COSLA and CIPFA's submissions have used a Scottish Parliament information centre graph, which shows that, in the five years to 2019, Scotland's revenue budget was cut by £1 billion, or by 3 per cent in real terms. However, during that period, local government suffered a significantly larger decrease of more than 7 per cent.

The submission says:

"Local Government's share ... has fallen from 34.8% to just 33%."

However, there does not seem to be any argument made about whether that reduction should be reversed, whether the figure should be held or—to use a phrase that has already been used—ring fenced at 33 per cent, or about how we close the funding gap that is clearly developing.

Paragraph 54 of the COSLA submission says:

"the model forecasts increasing demand",

on local services

"of £1.988 billion or 17.3% by 2022-23."

That is an astronomical sum. I do not think that anybody in this room thinks that that is remotely achievable financially.

The problem is that there is a squeeze from two directions. I have just mentioned the £1 billion real-terms cut from the UK Government, but local government is being squeezed by the NHS, too. Mr Sharp has talked about the NHS budget growing to 50 per cent of the total budget over the next few years. Under devolution, the NHS share has grown from 36 per cent to 43 per cent.

How can we possibly give local government the money that I, and I think, most of us consider that it deserves, without either taxing everybody to death or taking money from other really important areas of the Scottish budget? That is the difficulty.

We get written submissions that are really well written and well developed that talk about the need for additional funding, but they are lacking in where the funding should come from. I ask the panel to advise how we can square that circle. Do you want to bite the bullet first, Mr Boyle?

Jim Boyle: We recognise that we operate in a world where a lot of those decisions will be taken

as political or policy priorities, so we do not, in any of our submissions, say that the Government putting funding into one sector or another is a good or a bad thing. Those are national policy decisions, but they have an impact on local government.

Rather than go into percentages and numbers, the essence of the submissions is that we cannot continue to deliver the same local government services with the funding that is there. That is the key message that we want to bring out of both of the submissions.

The question is: do we wish to continue to deliver the same services, or do we wish to pay more into that through taxation? Again, those are political decisions, but there will be things that local government can do through its lobbying and through its implementation of its current powers.

11:00

Clearly, a review of the council tax system is coming up, and we would obviously want to contribute to that debate. Again, the basic point is that a significant reduction in funding for local government through whatever solution is ultimately achieved would have serious consequences for local government.

We are trying to paint a picture in which, going forward, the current funding model cannot deliver the services that we currently produce, if only because of the demographic challenge in social care. Clearly, that will have a massive impact on the funding of services.

There is a question about taxation—that is one for national politicians to look at. If we are having an honest debate about whether we can deliver the same services with the current fiscal model, my response is that I do not think that we can. That is, again, about our taking brave decisions in relation to changing public, local government and national Government politicians' expectations of our current service delivery. Currently, those do not stack up with regard to what is deliverable in coming years. That is the key message that we are trying to get out.

Taxation may be part of the solution, but I am not going to make any recommendations about that. That is one for the politicians to consider.

Kenneth Gibson: We are looking for recommendations; we are looking for answers. I think that we have all the questions, but we are really looking for you to say, "This is what we think you should do."

We have seen a figure on what is required, which I think is very helpful. It is a big figure, but at least it has been included in the COSLA document. However, we want you to say, "This is

what we think you need to spend, this is how we think you should change services to deliver what can be delivered and this is where we think the money should come from".

That might be from other Scottish budgets or through additional tax. If it is through additional taxation, how much should income tax go up? Should it go up 1 per cent? Should it go up 2 per cent? Should it be higher rate taxpayers who pay? Should the threshold change?

I always find it frustrating when people come and say, "We need additional money." We all agree that local government needs additional money. We want to know where that money should come from, how much is required and what it should be spent on.

Graham Sharp: I will make an observation, which I think is consistent with all the reports that we have produced, although it is not the way in which we have presented it. If I look at the challenge of local government, I think that local government will be looking at three areas.

One is funding. Clearly, as central Government funding reduces, local government has to look at other ways of obtaining income, whether that is through fees, local taxes, rents or whatever.

The second area is how local government uses its resources. That is about transformational change and looking at the scope of services. Fundamental to that is medium and long-term financial, workforce and corporate planning.

The third area is demand management, which is about preventative spend and how we reduce the demands on our services.

The other thing that is preventative—although it is much more than just that—is economic development and increasing prosperity, because that reduces demand by reducing deprivation and increases the tax base for funding.

If I look at local government from a strategic point of view, I think that those are the things that policy makers will be considering.

David Robertson: I will not comment on the size of the funding allocation question, which is not one that we will solve today. What I offer goes back to my comments about our looking at health and social care as one system and recognising that we need to fund—whatever the size of the cake—health and care services in communities on the same basis.

I think that one of the answers is prevention. One of the solutions is what we as a nation spend on public health, because that sits at the heart of the prevention agenda. Look at what other countries have done. Finland, for example, has made significant investment in public health

campaigns on alcohol, diet, heart disease and tobacco—that is, all the issues that ultimately bear very heavily on the health service through treatment.

That approach has some of the answers to the challenges that we face. We need a whole-systems approach to funding, we need to learn from best practice elsewhere on public health and we need a real focus on prevention. We spend a tiny fraction of the total health budget on public health prevention measures and the majority on treatment and acute services. If we could shift that balance over time, we could gain significant benefits as a nation.

Councillor Macgregor: I am having that discussion with my health and social care spokesperson and with both ministers who hold those portfolios. As I said right at the start of this evidence session, there needs to be greater recognition of the contribution that councils make to overall health. When we look at health consequentials coming through the Barnett formula, historically, very little of that, if any at all, has, until the past 18 months, been passed to local government. If we are serious about the early intervention and the prevention agenda and keeping people healthy in their communities, the value that some of that money in local government has and how it will save the NHS in the long run needs to be recognised.

In talking about where money comes from, one challenge that we have at the moment is the £481 million-worth of additional commitments in next year's budget. My fear is about where that comes from when the Government is making the decision on what to give us. At what expense will that come?

I think that we have longer-term decisions about health and social care and about the transfer of health consequentials that need to be implemented quite quickly. In the next four months, Derek Mackay will set his budget. He has to find an additional £481 million before we have even got off the starting blocks. Where will that funding come from? It must be new, additional funding. That money will be used to fund really important things, but it cannot be at the expense of what we are already doing, unless you can tell us what you think we should be cutting.

The Convener: You seem to be asking Kenny Gibson the questions that he has already asked you.

Councillor Macgregor: Exactly. I am sorry—it is hard.

Kenneth Gibson: I have to say that I am pretty underwhelmed by the responses. If people come here asking for additional resources for their specific areas of the budget and we have to

prepare a report with recommendations for Scottish ministers, it is helpful to us if they say, "We think that local government should get £X million more and that the money should come from A, B, C or D in the Scottish Government." I just do not think that it is helpful to come here and not provide any of that information. I am joint chair of the cross-party group on improving Scotland's health: 2021 and beyond, so I am well aware of the challenges, given that that group deals with the harms caused by tobacco, alcohol and obesity, which will not be solved in the next four to five months. We are looking for answers for the budget now, and that information would be helpful.

I will move on to ring fencing. The CIPFA paper says:

"The current position where councils cannot reduce the number of teachers that they employ, even where efficiencies in the cost of service are possible without compromising the standard of service, is placing a particular strain on council budgets."

Under the previous Lib-Lab Administration, the historic concordat in 2007 effectively abolished ring fencing. However, it has kind of crept in again as a result of local government having been given additional money for something—teacher numbers, for example—that it has decided to spend on something else. I will stay with the teacher numbers example. Scottish ministers stand up in the chamber and are attacked by politicians whose own parties are the ones that are reducing teacher numbers. How are ministers supposed to address that issue? Let us say that ministers tell local authorities, "Fair enough, we will remove ring fencing on teacher numbers," and some local authorities decide that they do not really need as many teachers because only five students are doing higher biology in one school and six are doing it in another, and they can maybe have one teacher covering both schools. How then do we avoid the colleagues of the politicians who take such decisions then attacking the Government, effectively because there are fewer teachers in Scotland? This is the realpolitik of all this. It is not just about facts and figures; it is about how it is presented. From a ministerial point of view, that is a very difficult position. Mr Boyle would like to answer—the issue is covered in his paper.

Jim Boyle: It was in our submission, so I will lead on that.

When we put our evidence together, we tried to keep out of the politics. When we make points in our submission, we are doing so on the basis of giving professional advice, so we try not to get involved in the politics. The point that we are making is that the focus is purely on the inputs, and the input here is the number of teachers, which represents about 20 per cent of the local

government cost base. Clearly, any inability to influence that by councils has a major gearing impact on other services. Opportunities to structure and deliver services in a different way may result in teacher numbers being reduced, but that avenue is not open to councils at the moment and it has not been for the past six years. That is really the point that we are making. We are not trying to make a political point, although we appreciate there are political ramifications for any party in taking a position on the issue.

However, although there will be opportunities through using technology more smartly to deliver education, sharing resources or staff between educational establishments and so on—there will be many options—the reality is that those simply cannot be delivered at the moment. That is the point that we are trying to make in the submission. It is really a plea to focus more on the outputs rather than the inputs.

As part of the consequences of that restriction, we have seen the reduction in other educational staff, such as classroom assistants and support for learning assistants, who are not included in the teacher numbers. Very often, particularly in some of our more vulnerable communities, those staff make as much difference as teachers make to educational provision and the support that goes with it.

In essence, the point that we are trying to make is that we would like more freedom to be able to deliver solutions that would not result in a deterioration of the educational outcome, but which can achieve the outcome in a slightly different way.

Kenneth Gibson: You see the Government's frustration. The Government goes into an election with a manifesto that says that it will fully fund free personal care, teacher numbers and so on. Local authorities then reduce funding for those areas and the Government gets criticised. However, the Government also gets criticised when it then says, "Hold on a minute—we will tie additional funding specifically to those numbers." I think we have to be honest and open about that issue if we are to get to the situation that Mr Boyle has suggested, where it is outputs rather than inputs that predominate.

Councillor Macgregor: I echo your passion and frustration.

The Convener: Sarah Boyack has a couple of quick points to raise.

Sarah Boyack: I have very quick follow-up question. There were a couple of points that, unlike Kenneth Gibson, I felt very warm towards around preventative spend and public health spend. There was a suggestion that there are short-term and long-term benefits, but I would like

to tie the issue to actual outputs. What sums have you done on short-term financial benefits that deliver output changes and what have you done in relation to the long term? We all talk warmly about preventative spend, but we do not do it. You have made the point that, three to four years in, the IJBs are not delivering. What evidence do you have that would help to raise the issue up the agenda or demonstrates practically what you could do that would be better than what we are doing at the moment? If you prefer, you can submit that information as additional evidence.

David Robertson: I think that we could provide some specific examples around that, which might help. One specific thing that we have done in Scottish Borders is to develop a new discharge to assess unit, which gets people out of hospital faster, so there is no delayed discharge in the local general hospital. We think that that has made a significant difference to statistics in that area, with people being moved on from hospital stays faster when they do not need to be there. That is a good example of prevention that we feel has had a short-term impact and will give longer-term benefit. I am sure that we can come back to you with more specific examples from COSLA on that.

Sarah Boyack: Thank you.

The Convener: Thank you—you can send that to the committee, Mr Robertson.

I thank the panel very much for a very useful session.

11:14

Meeting continued in private until 12:34.

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