



OFFICIAL REPORT
AITHISG OIFIGEIL

Local Government and Communities Committee

Wednesday 9 November 2016

Session 5



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DRAFT BUDGET SCRUTINY 2017-18 1

LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE
10th Meeting 2016, Session 5

CONVENER

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

DEPUTY CONVENER

Elaine Smith (Central Scotland) (Lab)

COMMITTEE MEMBERS

*Kenneth Gibson (Cunninghame North) (SNP)

*Ruth Maguire (Cunninghame South) (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)

George Black (University of Strathclyde)

Councillor Michael Cook (Convention of Scottish Local Authorities)

Kirsty Flanagan (Argyll and Bute Council)

Eileen Howat (Society of Local Authority Chief Executives and Senior Managers Scotland)

Morag Johnston (Scottish Local Government Partnership)

Professor Richard Kerley (Queen Margaret University)

Councillor Frank McAveety (Scottish Local Government Partnership)

Alan Russell (Renfrewshire Council)

CLERK TO THE COMMITTEE

Clare Hawthorne

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Local Government and Communities Committee

Wednesday 9 November 2016

[The Convener opened the meeting at 10:32]

Draft Budget Scrutiny 2017-18

The Convener (Bob Doris): Good morning, everyone, and welcome to the 10th meeting in session 5 of the Local Government and Communities Committee. I remind everyone present to turn off their mobile phones. As meeting papers are provided in digital format, members may use tablets during the meeting. That is my plea. Honestly, when people see us on digital devices, we are not on Twitter; we promise that we are looking at our briefing papers.

We have received apologies from our deputy convener, Elaine Smith. Unfortunately, she cannot make it along.

Agenda item 1 is draft budget scrutiny 2017-18. The committee will take evidence from a number of witnesses on the Scottish Government's draft budget 2017-18. Given that the draft budget has yet to be published, the committee has agreed to undertake pre-budget scrutiny looking back at what was spent in 2015-16 and, to the extent that it is possible, 2016-17—obviously, that will be more challenging to do.

This is the first of two evidence-taking sessions. Our original intention was to have a single session in round-table format. We apologise for our last-minute change of heart on that. I will run through who we have with us: George Black, visiting professor at the University of Strathclyde; Richard Kerley, professor of management at Queen Margaret University; Councillor Michael Cook, vice president, and Vicki Bibby, chief officer of local government finance, at the Convention of Scottish Local Authorities; Eileen Howat, the chief executive of South Ayrshire Council, who is representing the Society of Local Authority Chief Executives and Senior Managers; Councillor Frank McAveety, the leader of Glasgow City Council, and Morag Johnston, the executive director of financial services at Glasgow City Council, who are representing the Scottish Local Government Partnership; Kirsty Flanagan, the head of strategic finance at Argyll and Bute Council; and—we are almost there—Alan Russell, who is director of finance and resources at Renfrewshire Council.

I thank everyone for coming along. There are a couple of matters on which to comment briefly at the beginning. I note that Professor Kerley may have to leave early; he has given his apologies in the event that he has to do that. I thank him for coming along. We understand the situation and know about the pressures on his time.

We are delighted to have the Scottish Local Government Partnership and COSLA bring along some officials to give additional support on technical information. I thank Vicki Bibby and Morag Johnston for coming along to do that but, given the size of the panel of witnesses, we are keen for the elected representatives to make the input, where possible, to allow for—if this is possible with such a large panel—zippiness in questions and answering.

With the housekeeping over, let us move to questions. It was interesting to read through the written submissions. It is clearly a challenging financial time, and a couple of pressures are identified in relation to social work. There are also budgetary pressures relating to wage demands and staffing costs. Those themes run through all the submissions.

The committee has its own outcomes to achieve from its budget scrutiny, and we are looking at how we can track not just how much of the Scottish Government revenue grant is going to local authorities but all the moneys that are meeting the statutory duties of local authorities and all the moneys in individual local authority areas. We are particularly interested in the accountability around, and the spending and direction of, the health and social care integration fund, which is £250 million a year, and all the predecessor funds in relation to that. In Glasgow, for example, there is a significant benefit in the area of social work in relation to delayed discharge numbers—there has been really good joint working in relation to that.

How should we seek to track the moneys in the future? How can those funds help with things such as staffing costs? The living wage for care staff was part of that £250 million. How can we track the money, and how can it help local authorities to meet their statutory duties?

Councillor Michael Cook (Convention of Scottish Local Authorities): I will come on to the question that you ask, but it might be useful for me to start with some general propositions. Where are we coming from? Last year, local authorities experienced a cut of 3.6 per cent across the board—in real terms, the cut was 5.2 per cent—which is a very significant cut in our budget and has serious implications for council services across the board. It has impacted on communities—I am sure that you have read the Scottish Parliament information centre report, so

you should be under no illusions about its impact—but local authorities are doing their damndest to protect those who are further down the social and economic spectrum. Because of the configuration of local government services, the cut has inevitably impacted on those people as well as on communities at large.

Within that, we need to think about a number of other considerations. We are talking about not simply the level of cuts—it seems that the cut that will be made this year could be of the same order as last year's cut—but the sheer inflexibility in the budget, which brings us on to issues such as the health and social care budget. There are all sorts of restrictions on how local government can spend its money, the most obvious of which relate to teacher numbers and the creation of an attainment fund—

The Convener: We will come on to all of that, but the question was about pressures on social care and how integration funds feed into that. You mentioned inflexibility. Would you rather that the £250 million went to local authorities than to health boards?

Councillor Cook: Yes.

The Convener: I am trying to tease that out. You will have lots of opportunities to talk about all the other issues, but that was my specific question.

Councillor Cook: Last year, the £250 million was directed through health, apparently to integration joint boards, and it is fair to say that councils generally were unhappy with that mechanism. There was no clarity about it and, in effect, the whole resource was soaked up on the health side. It certainly did not attenuate any of the cost pressures that councils were suffering from. That needs to be understood.

The proposition on the living wage was floated very much at the last moment in discussions with the Scottish Government. That is not to say that local authorities are not committed to paying the living wage as an objective, but there needs to be an understanding of the implications of such an approach. Frankly, if resource is being directed to the living wage, it will not attenuate other cost pressures either in health and social care or on the other side of the house. In effect, the 3.6 per cent cut in local government services applied across the full spectrum of local government provision and the only attenuation was in health and social care. A large chunk of the £250 million was used to pay the living wage and the rest of it was used to alleviate pressures in health and social care. Local authorities did not really see any return on that money other than through the alleviation of pressures in that sector.

The Convener: I would like to clarify that. My understanding is that almost half of the money was used for living wage pressures. I apologise if I have got that number wrong.

Councillor Cook: Yes—£125 million.

The Convener: So the vast majority of the money was not used for health if half of it was used for living wage pressures. The point that I am trying to make is that local authorities sought to meet wage demands and pressures that go beyond health and social care—I fully accept that. I am trying to scrutinise the public pound that eventually found its way to meeting local authorities' wage responsibilities and whether that has been helpful.

The other half of the £250 million is not chickenfeed, Mr Cook. There was co-sign-off on that between local authorities and health boards. You said that it all went on health. That is not my understanding, but you may want to clarify and add to those two issues.

Councillor Cook: Yes. Notionally, the £250 million was split and £125 million was supposed to be directed towards meeting the cost pressures associated with the living wage. In theory, the rest was meant to attenuate general local government cost pressures. That was the proposition that was put to us in the negotiations with the Scottish Government.

I am saying to members that the feedback from councils generally was that that was not how matters crystallised. In effect, money was soaked up to attenuate the costs of the living wage, the rest of it went on cost pressures in health and social care, and any anticipated attenuation of general local government pressures did not accrue.

The Convener: Right. We are not trying to make light of the cost pressures that local authorities face, which you will put on the record today. It is just about acknowledging that some of that money helped to pay better wages to low-paid care staff in our communities, that those cost pressures were mitigated by that money and that money went to social work.

Can Councillor McAveety help us out further?

Councillor Frank McAveety (Scottish Local Government Partnership): Obviously, the question is very effective, as we are trying to work out how the budget is allocated and who has responsibility for trying to meet the pressures that exist. The SLGP and COSLA identified in our submissions the core issues to do with the funding for local government to deliver most of the demands that quite rightly exist from what our citizens expect and new measures that Governments have identified, which they want

local government to be one of the vehicles to deliver.

Glasgow City Council was the first council in Scotland to advocate a living wage. Obviously, part of our debate in Glasgow was about trying to ensure that the living wage would be included. There are still tough decisions to be taken behind the scenes about what should be done about the private sector's capacity to meet the needs of its staff with a living wage and the pressures that it would want the IJB resource allocation to meet, rather than necessarily the work commitment.

On the figures that we had for our IJB, there is a fundamental structural issue to do with when councils are notified. I would like it to be recommended that there is a much earlier contribution so that people know exactly what the figures are. We certainly had a concern about that. We were going through a budget process and we had a kind of dance of the seven veils round the budget in trying to work out which bits of it we could allocate to address our pressures.

On the figures that I have for Glasgow—obviously, the figures will vary across the four SLGP authorities—£33 million was the element of IJB resource allocation that was made to the council. Half of that had to meet the living wage obligations; the other half was for pressures in social work services.

The health board wants to push down a number of issues to the IJB as we develop it. They include very difficult and controversial decisions about community health provision. They might be decisions that the health board should have dealt with a long time ago, but it chose not to do that or decided that it could not do that because of its resources. There is a big concern about that.

The SLGP's view and my view as the leader of Glasgow City Council is that we really need to get clarity much earlier on the budget settlement. We would like to have gone for a budget in early December, but because there has not been any clarity at the Scottish level yet, that has been delayed until probably early February.

I hope that that is helpful.

The Convener: That is very helpful. We want to be helpful to local authorities in structuring the process to make it easier for them to set their budgets, even though the circumstances are challenging.

George Black (University of Strathclyde): You asked about how the £250 million that is going to the integration authorities could be tracked. I think that that will become an even greater difficulty in the years ahead because, if the reform is to be truly successful, the moneys that the councils and the health service put in will lose

their identity as the integration takes place. If, in the years ahead, we were to look at whether the integration has been a success, part of the evidence that it had been a success would be that the money could not be tracked in the way that it can be at the moment.

10:45

The Convener: That certainly makes it challenging for this committee to do its job of tracking the public pound to scrutinise the money that is available for statutory local authority services. That is why I was so persistent with Councillor Cook in relation to some of those moneys.

If none of the witnesses has anything to add, I will bring in one of my colleagues for an additional question.

Alexander Stewart (Mid Scotland and Fife) (Con): Those who have spoken already have touched on the point that the earlier we have an indication of where we are going with the finances that come from the Scottish Government and local authorities' financial situation, the better. Over the past few years, that has always seemed to happen towards the end of the timescale, with the result that we have been running to get the budget out in time and make things happen.

You might have done a lot of work in the past to put together plans and formulate strategies, but the pressures continue to grow in the elderly section of the population. The fact that we have a growing population and a growing elderly pool seems to act as a large constraint on the services that we are all trying to provide. Local government suffers at the blunt end of that, because it has to try to make progress and move forward.

I would like to tease that out a little. How do you prioritise the allocation of money that you get? Do the worst-case scenarios—the ones that are showing the most pressure—get the money first, or do you still try to align the budget with those areas that you have decided on when you have done your short-term and long-term financial management planning? If that is the case, are you still managing to cope with the situation, or do you have to firefight as you move forward because of the lack of expenditure that you have left, the timescale and the constraints of the size and age of the population?

Councillor Cook: The simple answer is that we need to do all those things. Clearly, budget planning is an incredibly detailed and complex process. Local authorities have an obvious statutory responsibility in relation to community planning partnerships. They have single outcome agreements. All those things filter into the process of working out what the priority spend is in relation

to the resources that the local authority has available.

At the same time—this is where the SPICE report is significant—it is evident that there are inordinate pressures on local authorities. As a general proposition, those pressures are composed of two facets. The first is the level of reduction in resource. The second, which is composed of a number of elements, is the lack of flexibility that we have to deploy the resource in the way that we judge appropriate. I say to the committee quite straightforwardly that, when it comes to making budgetary decisions in local authority areas about what the priorities should be, people on the ground are generally much better placed to make those judgments than are ministers.

On some of the difficulties that we have in turning round in our own skin, there are obvious restrictions in relation to teacher numbers. The reality of a teacher number requirement is that, in effect, it locks up resource to maintain the proportion of teachers relative to the number of students across Scotland. That gives us considerably less flexibility in terms of how we employ that resource. It is actually counterproductive to the meeting of some of the Scottish Government's aspirations on attainment, which are shared by local authorities generally. That is the nature of the problem.

There is also a massive gearing effect, such that, if an across-the-board 5 per cent cut is made, because of the level of protection that is afforded to some discrete areas, the effect of the cut is disproportionate in other areas. A bit of work that is emerging from one local authority suggests that a 5 per cent cut can amount to a 55 per cent incursion into a particular service area. That is the level of the difficulty that we are dealing with.

A related problem is that local government, frankly, is not the master of its own house in terms of how it works out its resource base. We have no flexibility, for example, in relation to local taxation, and what taxation powers we have are being further restricted and are being reused for national purposes rather than the local purposes for which they were designed. I am referring to the multiplier and the creation of the attainment fund, which will result in resource being drawn off from local authority areas and used to support a national policy. We do not bridle at the national policy; what we bridle at is the fact that that approach drives a coach and horses through the principles of local taxation and completely trashes the democratic mandate of local authorities.

Councillor McAveety: Straight after we set our budget in March, I established in Glasgow a tackling austerity group with the finance director, chief executive and senior councillors, which

meets every fortnight to interrogate our budgets and to try to make us as ready as we can be for whatever decisions on grant allocations are coming. There is a structural issue about the relationship between central Government and local government in terms of capacity to find allocations of resources because much of the spend is predicated either by grant or by preconditions on the grant. For example, last year's budget settlement was a challenge for a number of authorities, because we had to meet some key priorities that had been defined as such by ministers, rather than by individuals at local level who—I presume—know the communities best.

Our reality in Glasgow is that we have a £74 million gap emerging for the next financial year. The national total includes a £30 million gap in Renfrewshire, a £35 million gap in South Lanarkshire and a £44 million gap in Aberdeen, so there is an incredibly high figure for the gap that needs to be filled. Even if there was flexibility around the 3 per cent variation and around the allocation for the attainment fund—which is a debate for another committee at another time, when we will make our views known—only about a tenth of the £74 million that Glasgow needs to find could be funded, so there is a real scale issue that committee members need to interrogate.

A more fundamental issue for us is how we recalibrate the debate that we need to have among ourselves, because I do not think that there is much that separates us on our ambitions for transforming the communities that we represent. How can we pull together the levers at national level—Scotland and the United Kingdom—and calibrate that with the pressures that we know we need to respond to at local government level? There is a genuine need for that to be opened up, so that we can think about who makes the decisions, what are the parameters of financial allocation, and what we in local authorities need to do.

The Convener: Thank you. Before I allow a supplementary question from Mr Simpson, would any other witnesses like to reply to the question?

George Black: The convener mentioned earlier the severe financial challenges that lie ahead; we could add that management of the new devolved tax powers will also come into play. It seems to me that there is a need for the budget process to evolve to take account of those factors and not just to continue with business as usual. Two things would be helpful in managing that.

First, rather than decisions being taken on how the cake is divided up and how much goes to local government, with councils then taking a view on their priorities, it would be more useful if local authorities were given planning assumptions by

the Scottish Government, such as what the impact would be of a 3 per cent, 4 per cent or 5 per cent reduction in grant, so that the Scottish Government could take account of issues such as equality impact assessments and economic impact assessments prior to making a decision about how much money goes to local government.

Secondly, instead of taking a one-year budget approach, we could have a one-year fixed budget followed by a two-year indicative budget, which would allow the Scottish Government to understand from councils what would be the impact of grant reductions over a longer period. If the budget process were to evolve in that manner, you would get better outcomes in reducing inequality and increasing economic growth.

Councillor Cook: The question that Alexander Stewart asked was about timescales and planning in the context of the pressure of timescales. I want to make a couple of additional comments that I hope will be useful.

First, it is self-evident that the later the budget is announced, the more that becomes a pressure in its own right, because it impacts on local authorities' ability to plan ahead. George Black talked about resource allocation and all of that, which would assist the process, but delivering the transformative change that local authorities are engaged in and getting budget fit takes time. We simply cannot do it rapidly, and we certainly cannot do it on the back of a fag packet.

An added complication is the propensity for single-year financial settlements, which is a major problem for local government. We want long-term planning, so that we can see the topography ahead of us. It needs to be understood that the single-year settlements that we had last year and this year were a decision of the Scottish Government. The Government could have decided to have a multiyear arrangement or a multiyear set of assumptions, but it chose not to do that. Far be it from me to suggest that the 2016 election might have been a consideration in relation to the single-year settlement last year.

We are having a single-year settlement again this year. That seriously complicates our ability to plan, which I am sure the Scottish Government and Parliament want us to do. We certainly want to be able to plan.

Graham Simpson (Central Scotland) (Con): Councillor McAveety gave us interesting figures on what Glasgow City Council and other councils might have to cut. The figures will be news to Eddie McAvoy at South Lanarkshire Council—as a councillor in South Lanarkshire Council, I have had a private paper on the figures, which were not for release, so I thank Councillor McAveety for revealing the figures. You have come up with the

figures yourself. Have you been given a heads-up from the Scottish Government?

I will follow on from what Councillor Cook said. In a number of submissions, councils complained about centralised control of budgets and the application by the Government of conditions to the money that is given to councils. What is your plea to the Scottish Government on that?

The Convener: For anyone who is following this meeting and who did not read the newspapers this morning, I should say that South Lanarkshire Council has said that it will freeze council tax for the next financial year. Folk's eyes might have been on other events that were unfolding through the night.

Who wants to respond to Mr Simpson's questions? I will be delighted to take responses from Councillor Cook and Councillor McAveety, but I am conscious that we have a variety of witnesses here.

Councillor Cook: I am happy to answer questions all day long.

Mr Simpson asked whether we had a heads-up. I am slightly constrained in what I can say about that. There is clearly a negotiation process between COSLA and the Scottish Government in relation to elements of the budget, but it is safe to say that at this juncture we certainly do not know the level of the settlement that local government will receive. If the Cabinet Secretary for Finance and the Constitution was challenged on that, he would be equally straightforward in saying that the figures have not been articulated.

It is clear that we are in a context in which local authorities have read the Fraser of Allander institute report and a whole series of other stuff, and are making assumptions about how the world is likely to look—although I suppose that the past 24 hours demonstrate that it is difficult to make assumptions about how the world will look. Local authorities are making assumptions all the time and doing budget planning on the back of that. The delay in the announcement of the settlement is a difficulty in that regard and might have an impact further down the line.

Mr Simpson asked what we want most. As I said, there are two aspects to this: the level of the cut and the inflexibility in the current budget. The simple answer is that we want maximum flexibility: that is the position. For understandable reasons, the Scottish Government will say that ring fencing is a thing of the past. Yes it is—but the reality is that an awful lot of our budget is fixed in particular ways. For example, setting of teacher numbers is simply another form of ring fencing.

11:00

If capping of council tax is not an example of the Government superseding a decision that ultimately should be taken on the basis of the democratic mandate, I do not know what is, so flexibility is the key, as far as we are concerned.

Councillor McAveety: I was on the blower earlier to Eddie McAvoy and he sends his love and affection. I hope that the feeling is mutual.

The Convener: Isn't that nice, Mr Simpson?

Graham Simpson: It is always mutual.

Councillor McAveety: The SLGP figures are basically predicated on the information that we had for last year and the likely direction of travel over the next three years. That is in George Black's paper, which you have in your committee papers.

There are three caveats every time. One is that the situation depends on what the input is at the Scottish Government end. For example, after the brouhaha last year, other information and flexibility were introduced in respect of the integrated grant fund, which allowed some of that allocation to be redefined to help with pressures on budgets. We will not know what that input is until the cabinet secretary comes before Parliament to announce it—whatever the timeframe is for that. I know that this committee and others have views on that.

Secondly, we in Glasgow have been looking at the financial projections every fortnight because another factor that we have to consider is what we have to do to fill the gap. It is not difficult to identify the gap—the key challenge is how to fill the gap.

We are operating to the assumption that there will be a ballpark annual cut of 4 per cent for Scottish local authorities—even 5 per cent for some councils. That is the kind of burden that we have in life in Glasgow, thanks very much. Essentially, we want to work through that and think about what we can do in terms of the balance of what we have in reserve, what we can generate via income, and what kind of transformation we can have.

The key point that Michael Cook identified is the flexibility to allow us to get to years 2 and 3 by identifying how we change services. I will be blunt—there will in the next three years be cases in Scotland of councils having to sit down and work out that there might be some services that they can no longer provide at the level that would be expected by any taxpayer. That is a real challenge that everybody in government has to wake up to. I do not want to hear again that they are modest changes that will not really impact on how we provide services—people who say that are kidding themselves on.

We are up for the challenge. I have never shirked a difficult decision in my life in the roles that I have played in local government and national Government. However, we need to be honest with each other about the parameters within which we are operating. That is something that we need to deal with.

On decisions about flexibility and whether or not people wish to use the 3 per cent cap, that balance has to be struck locally based on what people think is acceptable and worthwhile. There is a massive gap between that and the reality of the budgets that many local authorities—not just those in the SLGP—are facing.

The Convener: Do any other witnesses want to add anything before I come back to Mr Simpson?

Alan Russell (Renfrewshire Council): I will just reiterate and echo some earlier comments. The advice and guidance that we give to members of Renfrewshire Council—I think that most local authorities are the same—is around development of medium-term financial planning as well as the more immediate budgets for 2017-18 for which we are planning. Councils are obviously dealing with a range of uncertainties in the medium term and the short term.

We must recognise that there is a continual process, as Councillor McAveety was indicating in the case of Glasgow. The process will be very similar, I am sure, across all councils. We need continually to refine what we expect the position to be in the following year. One of the big challenges is to come as early as possible to a view of what the position will be. The position on the grant is only one of the areas that feeds into that. However, getting earliest possible sight of what the budget is and what conditions are associated with it helps councils to manage their budget process in a sustainable way in relation to service decisions, which is important, but for 2016-17 there has not been enough information and clarity, and the budget being received very late means that councils must set their budgets at very short notice. We need that clarity about the grant position.

The Convener: Thank you very much. Do you want to come back on any of that, Mr Simpson?

Graham Simpson: You mentioned the frustration of being told how many teachers to employ. Are there other areas from which anyone would like restrictions to be removed?

Michael Cook: The 3 per cent cap is clearly a restriction: councils can decide whether to freeze council tax or increase it and they should have latitude to do that. Local authorities believe that health and social care monies should be routed directly to local authorities. Attainment is another issue; I can say more about that. I am sure that I

can think of others, but I will allow other people to come in.

The Convener: Mr Simpson has asked what additional things you would like flexibility on. We already have on the record that you would like flexibility on the commitment to maintain teacher numbers and on the 3 per cent cap on council tax increases. This is an opportunity for witnesses to put on the record any additional flexibilities that they would like.

Michael Cook: Discretionary local taxation is another area for flexibility.

Professor Richard Kerley (Queen Margaret University): I have a couple of observations. I will set aside the discretion over local taxation as that has been discussed earlier; there is little point returning to it, now.

There is a degree of confusion between the prescriptive certainty that is aspired to by the centre—by which I mean the Scottish Government and, to some extent, the Scottish Parliament—and the unpredictable flexibility that is being proposed. For example, the cap on teacher numbers strikes me as being a particularly heavy-handed exercise of central control, once you get down to the level of what Argyll and Bute Council does and whether it has one or two teachers. The consequence of that in some councils—not necessarily those that are represented here—is what we know the consequence to have been in what is now Police Scotland, which is that staffing cuts are made in other parts of the total workforce, rather than in the capped area.

I want to turn to the pre-school education proposals, on which there is considerable confusion, which makes planning ahead remarkably difficult. There is an ambition and a wish to extend the hours that are available to people with pre-school children, but given the pattern that operates throughout Scotland, that would require a doubling of the pre-school estate. There are not enough rooms to put wee bodies into in the morning and afternoon, because at the moment one lot go in the morning and the other lot go in the afternoon. The response that is being debated and suggested—I do not know whether it has been modelled—involves the equivalent of a pre-school voucher that could be issued in various ways. That illustrates the broader conceptual discussion around how we are organising provision of education before statutory school age.

I will tie that in to some of the earlier questions. The Scottish Parliament information centre has put in front of the committee some of the very good work that has been done by my colleagues at the University of Glasgow and Heriot-Watt University on pro-rich and pro-poor services, but I would challenge some of it. For example, it is arguable

that secondary education in the upper years is certainly not pro-poor. Given that a high proportion of kids from the lower socioeconomic groups leave school at 16, the money that is poured into sixth year and upper sixth is by no means pro-poor.

Equally, judging and dealing with that phenomenon is a long-term process. We all think that closing the attainment gap is desirable, but no one thinks that it can be done in anything less than 10 to 15 years, because the kids who are not benefiting from education at the moment are already in the system. Turning that around is a long-term process, so I argue for the longer-term planning that George Black and the two councillors have suggested.

If, given the circumstances that we face, the gloomy reality is of a continuous reduction in central Government support to local government—I think that it is and certainly will be over the next three to four years—the Government should have the courage to say that. It should tell local authorities that they should plan in 2017-18, 2018-19 and 2019-20 to have a reduction of 1 to 1.5 per cent in their budgets. I would prefer that approach to the modelling that is sometimes attempted in which service directors are asked what they would do next year if their budget was reduced by 10 per cent. Invariably, they bring out what used to be called the shroud-waving options, so that everybody's response is to say, "Oh no, we're not doing that." A sustained planning exercise would have far smaller variations. What the Bank of England calls fan graphs show that, over the past X years, the variation, although continuous, has been relatively small year by year. I know that there are exceptions, Councillor Cook, so do not rebut me on that one.

The Convener: The question was, of course, about flexibility. Thank you—your response was very helpful. You mentioned pre-school childcare commitments. It was recently reported that, in the past three years, £329 million was made available for pre-school childcare to local authorities but the expenditure was £189 million, which falls short of the earmarked moneys by £140 million.

I am not criticising that or otherwise. I am merely asking whether that shows flexibility. You could make the political point and say, "Where has that money gone?" Councillor McAveety, for the previous financial year the figure given for Glasgow was £15 million for childcare commitments, of which £9.1 million was spent, which is 60 per cent of the provision. That could be because you are managing the resources well and you are redeploying the money elsewhere, but it is quite hard to pick up from looking at the numbers whether that is the case. Is it an example of the flexibility that exists in the system? Does anyone want to come back on those numbers?

Professor Kerley: I cannot think of the right phrase, but there is little evidence Scotland-wide that, based on our current model of pre-school provision, parents are queueing up with children unable to get them in, although they might like to have a different provision.

Part of our current debate that will be very hard for any of you—and when I say “you”, I mean the Parliament and the councils—to manage, is that we have overemphasised the available flexibility that is remotely possible. I have listened to people on the radio and I have read in BBC reports about parents who say, “I would really rather take my daughter to nursery school at 8 o’clock and pick her up at 4 in the afternoon.” Imagine if you said that about primary school. People would just say that that is not how the game works; it is a different model.

The underspend is not a deliberate starvation of the system but, given that how we operate—and this is a broadly accepted way of operating across all Scotland’s authorities—is to have three hours and 10 minutes of school in the morning and to have three hours and 10 minutes of school in the afternoon, there is a mismatch between what we do under current regimes and how they are funded, but the gap between making the pre-school day the same as the primary school day is a big one to bridge—and impossible to bridge in a year or two years. That is my judgment. I may be wrong. Maybe the councillors here have extra prefab units to use.

The Convener: I am conscious that we are not the Education and Skills Committee; we are the Local Government and Communities Committee. I would love to have that conversation, too; it is a matter that I am passionate about, as I am about the work in partnership with the local authority on the issue. However, my question was more about the fact that funds were identified and a budget line allocated but, in the past three years, £140 million of that budget line was not spent on pre-school childcare, yet the service was still delivered. That could be good management of the system and the money could be being used elsewhere. We are looking at budgets. It is a reasonable question to ask.

Councillor Cook: First, it is important to remember that that assessment of the figures came heavily caveated. Secondly, it goes back to the whole proposition of medium and long-term planning. It takes time to feed that resource into the system. A third aspect of it is that getting the two-year-olds into the provision that is directed towards them has been something of a challenge. Those three propositions provide an element of challenge to a simple, easy conclusion about the underspend as you have described it.

11:15

The Convener: I assume that the money was spent, but just not on that policy.

Kirsty Flanagan (Argyll and Bute Council): The figures need to be challenged, and I think that they are being looked at. Although there seemed to be an overall underspend in the funding, whether or not that provided some flexibility, we could equally give other examples of areas that were underfunded. For example, in Argyll and Bute Council, the throughcare and the aftercare that are required under the Children and Young People (Scotland) Act 2014 have been severely underfunded. There are lots of examples on the other side.

The Convener: We do not have the Government’s view, so we do not know whether it would agree with that. I was not criticising the underspend. Please come back and challenge those figures. The question was about flexibility and the moneys that were identified. Not all the money was spent on that policy, and local authorities were able to deploy it elsewhere. I was trying to tease out where the flexibilities existed.

I was indulging myself as the convener of the committee and will now let another colleague in.

Kenneth Gibson (Cunninghame North) (SNP): A lot of the evidence that you have given today gives my colleagues and me food for thought for the questions that we will put to the Scottish ministers. We have heard some emotional and passionate responses today.

In George Black’s written submission, we are told:

“By giving such a high spending priority to health, adult social care, and to police, it follows that other areas of spend had to bear a greater proportionate share of the cuts.”

The submission goes on to say that the Scottish Government’s DEL suffered a real-terms decrease of 1.4 per cent—that is the elephant in the room. The Scottish Government itself has experienced a reduction in its allocation from Westminster, and the proposal that was put forward at the Scottish election to raise taxes was rejected by the electorate. Although everyone on the local government side would like to see more money spent on local government—the committee has great sympathy for that view—how can we square that circle? The political parties that are asking for more money to be spent on local government and for restrictions on teacher numbers to be relaxed would be the first to denounce the Scottish Government for switching money from the national health service to local government, and they would be the first to denounce the Scottish Government for relaxing teacher numbers if teacher numbers fell. How can we square that circle?

I would also like to discuss the funding formula. I have not read much about funding formulas, although I remember that we used to discuss funding formulas ad nauseum. It is interesting to look at what has happened in Glasgow since devolution, when we had a Liberal-Labour coalition. Glasgow started off with a per capita resource that was about 130 per cent of the Scottish average but that figure was down to about 120 per cent of the average by the time the SNP came to power and it is now 114 per cent. There have been significant alterations in how money has been allocated, but I have not heard anything about that. Can you touch on that matter?

George Black: The point that I am making in my submission is simply that there is a fixed cake and that the more protection is given to priority services, the greater the pressure that puts on other services. That is a political choice—that is the point that I am trying to make.

There is no magic bullet for getting through the next few years without addressing the severe financial pressures that we face. As I said—and as colleagues have mentioned—if local authorities had three-year budgets and were able to go into their transformation programmes with much more confidence that they had the right envelope, they would be in a better position to explain to the public why they were going through that process. My point is that we cannot change the numbers but we can make the process much more transparent for the public and easier for councils to implement.

Kenneth Gibson: That is a really good point.

The Convener: I will ask Councillor Cook to answer your question, Mr Gibson, but I will allow you to respond to Mr Black if you have a specific point to make.

Kenneth Gibson: Yes—it is a specific point. The process relies on the Scottish Government knowing what its budget allocation from Westminster is going to be year on year, but it does not always know that. The Scottish Government can sometimes set out a longer-term budget, but that cannot happen every year, because of spending reviews and things.

George Black: There will always be uncertainty about the overall envelope but, in the same way as councils go ahead with their financial planning although they do not get the heads-up about what their grant will be, I cannot see why the Scottish Government cannot give councils indicative figures to allow them to carry out that planning.

Councillor Cook: I absolutely agree with what George Black said about that. I am in the happy position of not being a Government minister and nor am I a party politician, so I am happy to make

criticisms where they are appropriate on behalf of COSLA.

Last year, there was a cash increase in the money that the Scottish Government received, and there could be a cash increase this year. The important thing to bear in mind is that the situation is partly a consequence of what the Scottish Government has done with its spending power. Therefore, even though the resource might not be significantly different—there can be argument about that and I accept that there are pressures on the Scottish Government—the simple fact is that the Government has reduced its spending power by the decisions that it has made. For example, free tuition fees, free prescriptions and guarantees on teacher numbers and police numbers are all restrictions in the system, all of which require resource, which means that we have less flexibility in other places. Mr Gibson may say to me that he supports all those policy positions, which is absolutely legitimate, but the simple consequence is that there is less flexibility in other places.

That is simply an augmentation of the point that Mr Black made. As we said earlier, if we lock up resource in teacher numbers, we simply cannot deliver some of the things that we might want to deliver on classroom support or classroom assistance.

Kenneth Gibson: I am just surprised that no one wants to talk about the funding formula.

I understand what Councillor Cook says, but those policies were voted on by the electorate and there is a mandate for them.

In its evidence to us, the Accounts Commission expressed some concern that, given the pressures that local government faces, there is not enough sharing of knowledge, experience and best practice in relation to optimising service delivery. It also expressed concern about the fact that, as it has ascertained, a service in one part of the country can be delivered for a significantly different cost at the same quality in another part. Therefore, there is still much more room in the system to deliver efficiencies, whether the budget is going up or down. How do the witnesses respond to that?

Professor Kerley: If it were a police interview, I would be nodding to say that I agree with you. My observation is that various local authorities could gain. Some do and, in some services, there is a better record of cross-authority discussion about how it is done and what the consequence is. That tends to be long established. For example, in what we now generally call consumer protection—environmental health—there are networks of sharing that are pretty fast or even instantaneous because of the demands that are placed on those services. In other areas—I will not name

organisations or people—I am struck by the extent to which I have heard people say, “Oh no, we can’t learn from them. They are too small,” or, “They are too big.” However, there could be far more sharing. I am aware that COSLA encourages it—I am not sure of the polite term for Frank McAveety’s organisation.

Councillor McAveety: The SLGP.

Professor Kerley: Where sharing happens, it appears to be beneficial.

Councillor McAveety: It has to be the direction of travel for local authorities to collaborate where we can. The Christie commission recommended that we collaborate in a series of ways to try to maximise the best use of public resources, given that we face reduced budgets. These are all political choices, whether at the UK or Scottish level. Individual parliamentarians can still make many political choices and apply pressure to their respective political parties to define their choices. Therefore, an absolute position today will not necessarily be the same in a year’s time. Politics has to be fluid.

The SLGP has asked the Fraser of Allander institute, whose report on the impact of the vote on membership of the European Union has been welcomed by the Scottish Government, to look at the grant distribution, and we will be happy to share that with the committee in due course, as it will be of benefit to everybody in the final debate.

The third big challenge for us over the next three, five or 10 years, given that there are a number of city deals across Scotland, is about how we combine to use the city deal structures to crack the big issue of ensuring that there is better partnership when it comes to the capital moneys and the revenue spend. We want to develop that further.

Councillor Cook: Richard Kerley is absolutely right that a process is under way. Developments are taking place on shared best practice and shared service provision. Is there more to be done there? Absolutely—there is always more to be done. Efficiencies can be eked out of the system, but to believe that that is the answer is to misunderstand the nature of the problem. The issue is that the level of difficulty that we are now dealing with is of a completely different order from what we have seen before.

I sometimes think that there is a trap in how people perceive shared services. They routinely imagine that shared services are a silver bullet. Shared services have a part to play, but they are plainly not a magic bullet, particularly in the context that we are talking about. We have sought to impress on the Scottish Government—and I emphasise the point again today—that it is necessary to have a whole-systems approach. We

are not talking simply about public sector reform within the confines of local government; we must look at public sector reform across the breadth of the public sector. Only when we engage on that scale will we be able to respond to the scale of the difficulty that we face.

The Scottish Government talks constantly about communities, and we are keen on that approach. There needs to be much more of a locality-based premise underpinning our approach to public sector reform. That is still in development. The tortured process of community planning partnerships is indicative of some of the challenges in that area.

Alan Russell: It is necessary to recognise that councils have been on a journey in delivering significant savings since 2011-12. Throughout that period, in Renfrewshire—and I think that the position will be similar across other local authorities—there has been a big drive to deliver efficiency savings and to protect the delivery of front-line services. Renfrewshire Council participated in a study by the Joseph Rowntree Foundation that was published in March 2015, which concluded that about 80 per cent of the savings that the council had made had been delivered through efficiencies—predominantly back-office efficiencies but also efficiencies in how we delivered front-line services.

That savings journey has been significant in allowing us to deal with not just the reduction in grant over that period but the significant cost pressures. For Renfrewshire Council, those cost pressures have been the biggest driver of the requirement to make savings. It is becoming more and more difficult to squeeze efficiencies out of the system and to protect front-line services. In general, local government has a very good track record in delivering efficiencies. It is a case of recognising that that is becoming more difficult to do. It will be more difficult to protect front-line services in what we anticipate will be a further difficult period for local government.

Kenneth Gibson: I am in favour of wholesale public sector reform rather than just local government reform, which I believe is a more radical approach than the one that the Scottish Government is soon to propose.

I am talking about not just shared services but how local authorities can look at and learn from one another. An in-house service that might be entirely for one local authority might be being delivered more effectively and efficiently elsewhere without any loss to front-line services. I do not want you to think that I am talking only about shared services, which can be very complex and are not always appropriate.

Councillor Cook: Indeed. I absolutely—

The Convener: I will bring you back in shortly but, given the responsibility that Eileen Howat has, it might be appropriate to invite her to answer that question.

11:30

Eileen Howat (Society of Local Authority Chief Executives and Senior Managers Scotland): To pick up on the point around shared services and councils working together, there are some good examples across the country of places where services are working together. However, the process to get there is not necessarily a quick one and it does not always generate the efficiencies that you would think that it might. What it does do is give us some additional resilience across the country.

Speaking on behalf of SOLACE, I can say that local government is very much up for doing things differently and that there are good examples of transformation, where councils are working together.

Councillor Cook: I quite appreciate that you were not simply referring to shared services, Mr Gibson. You are also right that it is extremely important that local authorities learn from the best practice of others.

I sit on the local government benchmarking framework board and, clearly, benchmarking is an important aspect of how you drive change. I have been before this committee answering questions about the benchmarking process previously. I see benchmarking principally as a tool for managers and senior members in local authorities to understand the differences in service provision, to determine why one local authority is much better in its deployment of the service than another one is and to deliver benefit as a result of that. What are called the family groups within the benchmarking process are extremely important. They allow you to, as far as possible, compare like with like in terms of local authority population density, topography and so on.

From your question, I infer that you are asking whether more needs to be done. I would say that more absolutely does need to be done. However, we are also quite gently saying to you that the issue that you raise is only a small part of the answer that we need to find to the challenges that we face.

Councillor McAveety: I would say to Mr Gibson that you need to deal with the territory that is in front of you. For example, as a result of a big decision that Mr Gibson and I debated and discussed over the years in previous roles that we had in the council, Glasgow City Council is no longer a landlord. Glasgow Housing Association is now the landlord that runs the housing for half of

the tenants in the city. We are in discussion with it about a serious joint-venture development to try to maximise the resources in a way that will deliver a social benefit in terms of the apprenticeship programme that we have articulated for a long time, combined with an opportunity for the supported workplace to be one of the best in the UK, if it is not already that. By putting together two big institutions—the in-house building repairs team and the GHA—and keeping in mind the fact that the GHA has access to bonds and so on for capital investment, and then maximising opportunities to share expertise and knowledge, we are growing something that is of benefit to the public sector.

The massive challenge for the integration joint boards concerns the fact that it will take a long time to work through the cultural differences between local government bodies and health boards, which we have all encountered as elected members over the years. Equally, the challenges that local government has had to face in terms of making savings are of a different style and proportion to what has been the case in health. Therefore, in my opinion, the health side will have to put back on the table the issue of where and how it can find savings. We are not talking about exiting from the delivery of certain services, as sometimes can be the case; we are talking about pulling together investment in an early intervention strategy, which is, clearly, a priority of the Scottish Government, through partnerships in the public and quasi-private sector.

Kenneth Gibson: I am glad that Councillor McAveety touched on the issue of prevention, because that is important. We cannot take our eyes off that issue if we are going to be able to deliver what we want to deliver.

The Convener: I will resist the temptation to list other social housing providers in the north of the city that I know the council is working in partnership with in order to deliver real progress.

Andy Wightman (Lothian) (Green): I want to ask a broad question about the balance of funding. One or two of you have made reference to the fact that you would like more flexibility about how much revenue councils can raise themselves. We are coming off the back of a historic low of about 12 per cent last year. The council tax multipliers will change—the cap is now 3 per cent—so there will be a bit of an increase.

I wonder whether, in the context of all this, there is any argument for the equivalent of the fiscal framework that the UK Government and the Scottish Government have negotiated. There is a devolved Administration with limited tax powers—which are being expanded, of course—but the relationship between how it deploys those tax powers and the impact that that has on the block

grant is subject to a set of rules that have been negotiated. Regardless of whether you agree with those rules, there is a framework in which both parties understand the implications of the other's actions. Would there be any benefit in having a similar framework for local government, so that, whether you agree or disagree with the actions of Government and how much money it gives you, at least you know what the implications will be in the future?

The Convener: Who would like to go first on that one? I note that our councillor colleagues have brought experts with them to help with that.

Councillor McAveety: It is like the Schleswig-Holstein question. As part of the theatre of debate, we used to have debates in the Parliament on parity of esteem between local and national Government. We also had a historic concordat, which was often a feature of First Minister's question time when I was here in a previous role.

Based on my experience in both local government and ministerial positions, my view is that the Arbutnott formula for health spend was possible, even though there was some anguish, because broadly speaking resources were increasing. The challenge now is that, because of the nature of public spending, and the likely figures that have already been identified in our submissions, there has been a real shift in the level of resources. I do not know whether we will ever get to a level of partnership at which councils have greater capacity to raise expenditure and be accountable for it at local level, rather than by direction from national Government.

This is a good subject for discussion in tutorials and seminars. I do not know whether the political process is shifting much; it has seemed quite glacial in the past few years. I would much prefer to have a clearer picture around indicative figures; we spoke about that earlier. We are all big boys and girls. We can cope with hard decisions and realities. Give us a bit of time and space to work with you. A recommendation from the committee might be for us to explore and find the territory to have that debate, rather than shouting over the garden fence at each other over who has left some stuff in the garden.

Councillor Cook: How you might get greater proportionality and less arbitrariness in the decision-making system is a good question. For example, the commission on strengthening local democracy in Scotland, which was commissioned by COSLA, looked at the trajectory of local government revenue raising and expenditure over the course of time. Historically, the picture is clear: the level of revenue that is both raised and spent by local authorities themselves has dropped massively; that has accelerated since the second world war.

The most recent commission on local tax reform, which was set up by the Scottish Government, looked at the vexed issue of council tax. At the time that the commission reported, council tax provided about 11 per cent of the revenue spent by local authorities.

The aspiration of the commission on strengthening local democracy was to see much greater financial autonomy for local government, recognising its democratic mandate, and a move closer to a 50:50 balance between grant and raised revenue. The question was whether some kind of framework would help, and I think that it would. As Frank McAveety intimated, it would certainly assist with things such as parity of esteem.

The simple reality—this will sound slightly cheeky—is that all the things that we are currently looking at are, in essence, matters for decision by others, in which we are simply the respondents. That is true for the most part. The view of the commission on strengthening local democracy, which embraced a range of stakeholders across civic Scotland rather than simply focusing on local government, was that we need to look at those things and find a much better balance. The democratic mandate at local level is important but needs to be accountable and to some extent autonomous. We will always need the balance in the system that is afforded by the central grant to take out some of the obvious inequalities, but we can create a much better model to approach those issues.

George Black: As the committee knows, the Scottish Government put forward a broad proposal to assign a proportion of income tax revenues to local government based on the tax take. If that proposal were to be taken forward, it would be important for local authorities to be given the powers to stimulate economic growth in their area in order to increase the tax take.

At present, some of those powers lie with agencies such as Scottish Enterprise and Skills Development Scotland. If the proposal were to be implemented, there would be implications in terms of whether some of the powers that are held by those organisations should flow down, not necessarily to individual authorities but perhaps to groups of authorities. A lot of the economic development initiatives are not unique to one council geographical area—they are wider, as with the Clyde valley—so it might be more appropriate to look at organising the powers on that basis.

The Convener: I offer Andy Wightman the opportunity to come back in if he wishes, but we need to move on. Ruth Maguire has been very patient.

Andy Wightman: I am fine, convener.

Ruth Maguire (Cunninghame South) (SNP): We have received written evidence on reserves. I am keen to hear more from the witnesses about what the appropriate levels of reserves for local authorities should be—obviously, that will vary greatly—and how those reserves could be utilised to support savings or changes.

The Convener: Who would like to go first?

Councillor McAveety: If it is appropriate, I think that the director of finance could best deal with that question.

The Convener: Of course.

Councillor McAveety: I have a view on what we should do with reserves, but a technical answer would be quite useful.

The Convener: It was not that we did not want you to speak, Ms Johnston—we were just trying to give due place to elected representatives.

Morag Johnston (Scottish Local Government Partnership): I have a couple of points on reserves. Throughout Glasgow's history, we have tried to avoid using reserves as a way to meet our revenue expenditure for reasons of sustainability that I am sure will be obvious to the committee.

What has happened most recently, certainly in the 2016-17 budget, is that the scale of reduction—the level that was received was unexpected—resulted in the council having to look to its reserves because it was statutorily obliged to set a budget before 8 March. To extend our transformation programme and make savings in such a short period of time would not have been possible, so in 2016-17 we had to use some one-offs to enable us to set our budget and allow our transformation programme to catch up.

The second point on reserves concerns the scale of the transformation that we have to undertake. George Black notes in his submission that those changes do not happen quickly—they can take two or three years and there can be uncertainty. Reserves are now much more important for underpinning those levels of transformation. We know that there can be risks in delivering certain things, and reserves are important to allow us to bridge the gap if areas such as technology take longer than anticipated to implement.

Alan Russell: To a large extent, I echo what Morag Johnston said. Renfrewshire has a financial plan in principle of not relying on reserves to underpin our budget if at all possible, as it is clear that that is not a sustainable position over the medium term. However, reserves are an important financial planning tool in the medium term, alongside other resources, to support change and the delivery of projects and initiatives that span a number of years.

There are often difficulties with getting the message out to the public and the media, with regard to the level of reserves that councils sometimes hold. Certainly in Renfrewshire, the unallocated reserves, which are there to help to manage unforeseen risks that might emerge, are retained at less than 2 per cent of the council's budget; that level is prudent but minimal. Moving forward, it is important to recognise the role of reserves in supporting budgets, but for addressing the financial challenges on a sustainable basis, reserves are certainly not the answer.

11:45

Councillor Cook: I echo what has been said. Scottish Borders Council, which is my council, uses exactly the same kind of process as has been described: in essence, reserves are used as part of a preplanned programme of delivering transformation in certain areas.

It is possible that we construct our reserves slightly differently from some other councils, which may be worth remarking on. We used to base our calculations on 2 per cent of our revenue spend, but we have moved to a position in which we assess the total risk and likelihood of risk accrual and then work out how much resource we need to set aside to deal with that. The approach is slightly different, but the underlying proposition is that we can use reserves. The recent rise in the reserve position is indicative of that, but it is not ultimately sustainable. We can spend the money only once.

Kirsty Flanagan: We do not advocate the use of reserves to support savings or on-going expenditure, because the money can be used only once. However, it is worth pointing out that we have had to use it to support savings to pay for redundancy costs. That is depleting our reserves.

We have also set aside our reserves to support the economy. Our main priority in Argyll and Bute is to boost the economy and we have put significant investment into regenerating our area. We also use reserves for transformation.

Levels of reserves generally are reducing and, as we move into a time of continued decline in Scottish Government funding, it is becoming more and more difficult to decide what to use reserves for because we might want to keep them to deal with risk. Last year, we increased our reserves from 1.5 to 2 per cent; that was based on the risk but, like other authorities, we base our reserves on our own criteria and area.

Councillor McAveety: This is a structural issue and reserves are there for crisis situations or periods of uncertainty. We should not confuse the two. I am saying that only because Morag Johnston is absolutely rigorous whenever politicians ask for the reserve figure. I wanted her

to speak earlier because she is scrupulous about reminding us of that, and obviously she learned at the altar of George Black how to make sure that city councillors understand the reality of financial frameworks.

My mother used to say, “Ye widnae run a menodge like this”, so we really do not want to get into a situation with reserves. You need to have, and we need to have with you in partnership, a structural debate to address how we get to a level of resources that meets the demand. What has not been overstated yet today is that, given the nature of our society, there are emerging demands that have an impact on what we will do. There are expectations about wages and our commitment to the living wage that will be the expected norm in the public sector. All those things have consequences for what we spend the money on.

The Convener: Those who are watching our proceedings might not know that Mr Black’s former job was as chief executive of Glasgow City Council. I am not sure whether he had an altar; perhaps we can confirm that after today’s meeting.

Kenneth Gibson: George Black is a bit like Clark Kent—when he takes off his moustache, you realise that he is George Black.

Reserves in Scotland are now about £1.89 billion. It is counterintuitive that, at a time when council budgets are reducing, reserves have increased by 50 per cent in the past five years. Kirsty Flanagan talked about the increase in Argyll and Bute’s reserves. It almost seems as if the more pressure there is on local government, the more the reserves increase, which is a bit odd. When local authorities argue for additional resources from the Scottish Government, that situation gives the Government a lever, because it can say, “But look at the size of your reserves.” We might understand the argument if every council had the same proportion of reserves, but the figures show a huge differential across local government. One local authority might have reserves of 25 per cent while another has 9 per cent. It is difficult for local government to argue its case, given that there is no consensus on reserves. What is the optimum level of reserves and in what circumstances might they be drawn down on a rainy day?

The Convener: Morag Johnston can maybe clarify some of the matters around reserves.

Morag Johnston: If it is helpful, I can speak about Glasgow’s position. We made quite a big contribution to our reserves in 2015-16, but that was absolutely in recognition that we started some of our transformation programmes earlier, in anticipation of what the settlement would be for 2016-17, so we had some unanticipated benefits when we set the budget for 2015-16. That is why

the level of reserves in Glasgow increased. As I said, they will be used from now on.

There is a difference between earmarked and non-earmarked reserves. In Glasgow, we sometimes use reserves as a way to hold money that we will contribute to events. We certainly did that in the lead-up to the Commonwealth games and we are doing it in the lead-up to the European championships. That can sometimes skew the figures.

Councillor Cook: What I was going to say has already been said. There is a big difference between earmarked reserves and unallocated reserves. I cannot remember the figures off hand for my local authority, and I do not have the financial plan with me, but the total reserve is significantly greater than the unallocated element, which is something like £67 million. Of course, what local authorities include under the overall reserve head might be slightly different because they batch up all those propositions differently. In our reserve, we have things such as the capital fund and a fund for early retirement, voluntary severance, redundancy and things of that nature. All those things are bracketed up. People see the headline figure in the general information that is put out and think, “My God—that has gone up astronomically,” but the position is slightly different with the underlying unallocated resource that is there to deal with shocks and contingencies.

It is true, however, that local authorities are planning ahead. Actually, part of the thought process that I am sure underpins some of the increase that you mention is to do with local authorities thinking about how to fund a reduction in headcount. They need to set aside money for that, and that might sit in the reserve. Councils are looking at other shocks to the system. As we described earlier, they might be planning for the careful use of some reserve to underpin elements of revenue until they can create greater turnaround in their skin.

There is a whole series of issues. The picture is much more complex than what we see from simply looking at the headline figures on reserves.

The Convener: I have a supplementary from Alexander Stewart and then we will move on to Mr Simpson.

Alexander Stewart: Reserves are very much part of the financial and strategic planning that any local authority does. The way that local government is treated by national Government can sometimes create confusion and disruption, which means that local authorities then have to think about putting more aside. Without reserves, there is an uncertainty that will continue to grow. Is the uncertainty and disruption that might be created

another reason why reserves would be used and could be moved forward?

Councillor Cook: There are two things that I would say to that. Unpredictable or unheralded issues or late decision making have an impact on the ability of local authorities to plan ahead. Not being able to plan ahead is injurious to service provision and to supporting the communities that are important to the Scottish Government and to us. There are a series of challenges.

Let me think a bit further about the other aspect of your question, and I will let someone else come in.

The Convener: Would anyone else like to come in? It is not obligatory. If you would like to come back in later, Councillor Cook, that will be fine.

Councillor Cook: I had another thought in my head, but it will come back to me.

The Convener: That happens to me all the time—do not worry about it.

Councillor Cook: It is a sign of age.

Graham Simpson: We heard earlier that South Lanarkshire Council will continue to freeze council tax; it is choosing not use the option to increase it by up to 3 per cent. What will the other councils do? I am looking at you, Councillor McAveety, because you lead a council, but we also have representatives here from both the main council groups.

The Convener: As an MSP for Glasgow, I would not be disappointed if you were to give the committee an exclusive, Councillor McAveety.

Councillor McAveety: I will have a varied discussion with members of the administration before I arrive at a conclusion.

Councillor Cook: The safe answer is that councils are waiting to see what the settlement is before they make a final judgment.

It is a slightly challenging proposition. If the rhetoric is that the financial context is challenging, it seems slightly curious not to exploit even the marginal opportunity that we are afforded by the additional 3 per cent. However, these things need to be looked at in the round. I would defend to the hilt the ability of all local authorities to make the judgment themselves, basing it on the considerations that they regard as appropriate. I would not denigrate any council for deciding to freeze council tax. If a council makes that judgment, it will ultimately be measured by that judgment, which is as it should be. If another council chooses to increase council tax, that is a matter that it can put to the democratic vote and it will get a response. The important point is about having the freedom locally to make the decision and being accountable for it.

Kenneth Gibson: I am thinking out loud here. It is curious that South Lanarkshire Council has decided to freeze council tax before there has been any indication of the settlement. Perhaps the Scottish ministers will think that local government is not doing so badly if such a decision can be made. It has not been very helpful to the process.

Councillor McAveety: If I may defend one of the SLGP member authorities, the leader of South Lanarkshire Council can rightly say that he is only fulfilling a manifesto commitment—members of the Government could perhaps consider that sometimes, too.

The Convener: Without going down that road, we have come full circle, Councillor McAveety. We started off with a question that probed for information about the £250 million health and social care integration fund, which will help with pressures on wages at the local authority level. It will also help with pressures on social work. We tried to track some of that money, as it is not reflected in the revenue settlement.

We also wanted to track local authorities' flexibility, which is why we asked about the £140 million underspend over three years of Scottish Government money that was given to local authorities for childcare commitments, but which local government held on to and used elsewhere. We also asked you about increasing reserves.

Despite all that, and despite the fact that we know that times are challenging for local authorities, there is always a feeling—there was when I sat on the Local Government and Communities Committee back in 2007, which is a long time ago now—that local authorities put the worst-case scenario to parliamentary committees, whereas Government puts the best-case scenario. We are trying to get beneath some of the numbers to scrutinise them, irrespective of what the budget settlement is. We recognise that there are challenges for local authorities, but when we scrutinise the budget settlement, we want to track not only the revenue grant but the other moneys that come into the system and which are not under local authority control. I appeal to you to say what you think we should be looking at. Of course, you might say that local authorities should or should not have those pots of cash, but we need to know where those pots of cash are. Councillor Cook cited the £100 million attainment fund, and I mentioned the £250 million health and social care integration fund, which will meet needs in local authority areas, but which is not under local authority control. Are there other pots of cash out there that we should be examining and scrutinising as part of our budget scrutiny?

12:00

Councillor Cook: I would like to come back on a couple of points.

I now remember the point that I was going to make, which is relevant. Local authorities are really good at this stuff. We constantly say that the situation is seriously calamitous, but local authorities are extremely good at eking out a position in the most challenging circumstances. Members need to understand that, and I am sure that they do. I have heard many times the rhetoric from local authorities that the budget is the most challenging ever. However, because local authorities have done their damndest to mitigate the effects on their communities, the public reaction has been comparatively light. That applies to a whole series of circumstances, not least job losses.

It has been assessed—certainly by the trade unions—that 40,000 of the 50,000 jobs that have been lost to the public sector in Scotland since 2011 have come from local government. Obviously, there is a sharp contrast with the situation in the Scottish Government-controlled health service, where different rules apply in relation to compulsory redundancies. Across the country, every one of the 32 local authorities is absolutely determined to guard against effects such as loss of headcount as much as it reasonably can, particularly where that would have a negative socioeconomic impact in the local area.

I also want to speak about what was said about the living wage and the attenuation of wage pressures. I take it that this is understood, but the attenuation that is provided by the £125 million relates only to adult social work services staff—it is not across the board. It is important to recognise that that is where that money was directed.

We have cost pressures, wage inflation, pension pressures in relation to teaching, national insurance changes and things such as the apprenticeship levy bowling down the track to us. Those are general pressures across the board; they do not simply relate to one discrete element of the cake.

The Convener: I am delighted that you remembered the point that you were going to make earlier. You have had the chance to put it on the record.

As part of the budget scrutiny, should we look at any other moneys that are swirling about in your local authority area and which you do not necessarily have as much control or direction over as you would want? Perhaps you could write to us later and let us know about that. One of the key themes of our budget scrutiny is overall expenditure in a local authority area and who directs it. That may lead to local authorities saying,

“We should have that cash. We should be directing it.” Who knows where that will lead? However, we want to scrutinise that, because that is our job as a committee.

Councillor Cook: I trust that I am not drawing the wrong inference, but the message from us is loud and clear. There may be advantages to be derived from certain funds that are allocated and which are not sucked up by the total cost associated with delivering the services, but that is a marginal part of the picture that we are dealing with. Broadly speaking, the picture is one of significant financial challenge—and even that is euphemistic.

Members have heard the rhetoric before, but we are certainly going into the most challenging set of circumstances. Members may think that there are lots of efficiencies to be derived from local government services as currently configured. I do not challenge the proposition that there are efficiencies there, but the level of efficiency that we can eke out of the system is not commensurate with the level of challenge that we face. We want the committee to hear that.

The Convener: We have heard that loud and clear. I think that you put that on the record earlier, but it is good that you have reinforced it.

Councillor McAveety: Obviously, the SLGP and COSLA want to make that central argument in the short to medium term. The elephant in the room is the structural issue of the allocation of budgets, which members need to interrogate.

The second issue is the review of the skills agenda. I expected that there would be genuine and serious engagement with local government, and I am surprised that that does not seem to have happened, and the situation is starting to unravel.

I will give members a good example of where there is real potential in the medium to long term. If we are developing city deals for economies that are wider than, say, the city deal that we have with our seven partner authorities, there is real capacity to have a proliferation of skills strategies all over the public sector and the private sector, which utilises the city region relationship.

We should look at city region approaches to skills development that essentially tie into the differences in the Scottish economy. Although there are many similarities across the country, places have very distinctive characteristics. There are challenges in the west of Scotland, for example, and Aberdeen City Council, which is one of our partner authorities in the SGLP, has to face up to the challenge of what is happening to the carbon industry in the north-east of Scotland. It needs to find a new way of looking at its wider economy, which has been framed and shaped by

the benefits of oil and gas. The greater Glasgow and west of Scotland member authorities in the Glasgow city region city deal, which include Renfrewshire Council and South Lanarkshire Council, genuinely see a willingness to open up that debate. That might help the public expenditure issue in the future by ensuring that we maximise the opportunities through partnerships.

If other issues come to mind over the next period, we will take up the invitation to respond to the committee.

The Convener: This is a very helpful place at which to end. Clearly, various tiers of government are working in partnership to deliver the city deal. That is a good point. Please write to the committee with any additional information that you want to provide us with. That would be helpful.

I thank all the witnesses for attending. We now move into private session to consider the evidence that we have heard.

12:07

Meeting continued in private until 12:33.

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