



OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit and Post-legislative Scrutiny Committee

Thursday 12 January 2017

Session 5



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PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE
1st Meeting 2017, Session 5

CONVENER

*Jenny Marra (North East Scotland) (Lab)

DEPUTY CONVENER

*Liam Kerr (North East Scotland) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

*Monica Lennon (Central Scotland) (Lab)

*Alex Neil (Airdrie and Shotts) (SNP)

*Gail Ross (Caithness, Sutherland and Ross) (SNP)

*Ross Thomson (North East Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Ronnie Hinds (Accounts Commission)

Fraser McKinlay (Audit Scotland)

Martin McLauchlan (Audit Scotland)

CLERK TO THE COMMITTEE

Terry Shevlin

LOCATION

The Sir Alexander Fleming Room (CR3)

Scottish Parliament

Public Audit and Post-legislative Scrutiny Committee

Thursday 12 January 2017

[The Convener opened the meeting at 09:00]

“Local government in Scotland: Financial overview 2015/16”

The Convener (Jenny Marra): Good morning and welcome to the first meeting in 2017 of the Public Audit and Post-legislative Scrutiny Committee. I wish everyone present a very happy new year. I ask everyone to switch off electronic devices or switch them to silent mode so that they do not affect the committee's work.

Item 1, which is our only agenda item today, is an evidence session on the Accounts Commission report “Local government in Scotland: Financial overview 2015-16”. We do not normally take evidence on Accounts Commission reports, but previous audit committees found it useful to do so in relation to such overviews, albeit that this year's report is in a different format.

I welcome Ronnie Hinds, deputy chair of the Accounts Commission; Fraser McKinlay, controller of audit at Audit Scotland, and Martin McLauchlan, a senior auditor with Audit Scotland.

I invite Ronnie Hinds to make an opening statement on the overview before I open up to questions from committee members. As this is the first time that the Accounts Commission has provided evidence to us in this session of Parliament, you are also welcome briefly to highlight any aspects of your work, powers or responsibilities that you think may be particularly relevant.

Ronnie Hinds (Accounts Commission): Thank you, convener, and a reciprocal happy new year to the committee from the Accounts Commission and from me. I will make a brief opening statement, and I am then happy to take questions from the committee.

We welcome the opportunity to discuss the 2016 local government financial overview report with the committee. As the independent public watchdog for local government, we publish our overview of local government in the spring of each year. This is the first year that we have complemented that report with a separate analysis on the finances of local government. The report articulates messages mainly from our analysis of

councils' audited accounts and the annual audit reports on them.

We intend the report to contribute to and provide evidence to inform discussion, debate and scrutiny of local government finances. This year, we found that, although councils have again remained within their overall budgets, all councils face financial shortfalls requiring further savings or the use of reserves. We have reported consistently in recent years that council budgets are under increasing pressure from a long-term decline in funding, growing demand for services and rising costs. We expect councils to undertake financial and scenario planning to better understand how those pressures will affect them in the longer term. Such planning needs to reflect their strategic priorities, which should form the basis for the decisions to be taken on how councils provide services in future years.

In 2015-16, councils' total revenue and capital income was £18.9 billion, which represents a real-terms increase of 2.9 per cent from the previous year. More than half of that came from the Scottish Government. In the six years from 2010-11 to 2016-17, Scottish Government funding for councils—both revenue and capital—reduced in real terms by 8.4 per cent.

Councils' net debt decreased slightly for the second year in a row. It currently stands at £13.7 billion. Councils currently spend about £1.5 billion a year on the associated interest and repayments on that debt. The proportion of income that councils spend on servicing debt varies, and that has direct implications for the amount of money available to spend on services.

Although the local government pension scheme deficit has decreased from £10 billion to £7.6 billion in 2015-16, councils and pension funds continue to face challenges from below-target or indeed negative returns on investments and increasing administration costs.

Overall, we report that councils have managed their finances well in responding to the pressures that they face. There is, however, variation in how those pressures are affecting individual councils. Our audit work shows that there is significant variation in how well placed individual councils are to address future funding gaps. Councils will need to make further savings or generate additional income, as relying on their reserves is not sustainable. However, opportunities to make savings are partly affected by statutory duties, national policy commitments and the cost of servicing their debt. Councils' ability to make savings will also be influenced by the level of savings that they have already made and the extent of their plans for transforming how their services are delivered.

Councils need to show how they have appraised all possible options for delivering the broad range of services for which they are responsible. However, recent best-value audits have shown that councils tend to rely on incremental savings instead of considering service redesign options. The commission is of the view that that is neither sufficient nor sustainable given the scale of the challenge that councils face. The tough decisions that councils must take in reshaping their services will require strong leadership and sound financial management. We are aware that the forthcoming elections will present political pressures that will influence those requirements, but we are clear that all elected members—whether they are leading a council or providing scrutiny of decisions—have a responsibility to provide strategic direction to the council.

For our part, we are keen to ensure that our reports provide practical advice to members and officers in helping them to fulfil their responsibilities, and we think that this report provides such advice. We will continue to report on how well councils are addressing the substantial challenges that they face.

My colleagues and I are happy to try to answer your questions.

The Convener: Thank you. I open up the meeting to questions.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Pages 22 and 23 of the report set out the structure of council debt. I was surprised to see lender option/borrower option loans there, as they are a high-risk element of debt. For some years, they were pushed as an alternative to borrowing from the Public Works Loan Board. Typically, they would come in with a teaser rate below that of the Public Works Loan Board and would then screw the councils later with massive interest rate rises. The alternative option was for the borrower to repay the entire loan but, of course, councils frequently could not do that. I am interested in how you value LOBO loans, because they are very difficult to value. What probability distribution creator did you use to value the LOBO loans?

Ronnie Hinds: I will address the opening part of your question and will refer the latter part to either Martin McLauchlan or Fraser McKinlay, who may be able to answer it.

We should not be surprised to find LOBO loans in there, because they are historic debt that has accumulated over years and, indeed, decades. They remain a valid instrument of borrowing for local government, although whether they are now used to the same extent as they were used 10, 15, or 20 years ago is open to debate. They are

included in the figures because they are part of the councils' historic debt.

I cannot comment on the observation that the teaser rate may have been an invitation to treat and that the rates that were subsequently negotiated may have been advantageous or disadvantageous. However, as you will know, and as the terminology suggests, under a LOBO, both parties have the opportunity to revisit the rate at a certain point in the term. It would not necessarily all be in the hands of the lender to move the rate at that point.

Colin Beattie: On that point, typically under a LOBO, the lender's option is to change the interest rate and the borrower's option is not to take that interest rate but to repay the loan.

Ronnie Hinds: Yes, and, depending on the circumstances at the time when the rate comes up for review, it might be to the advantage of one or other party to say yes or no to either of those options.

I ask Fraser McKinlay or Martin McLauchlan to give you some information in response to the latter part of your question.

Martin McLauchlan (Audit Scotland): We did not look at probability distribution or anything like that. The figures are based on the audited accounts. From paragraph 54 onwards, we set out the classification in the accounts and how that differs. Using the debt figures from the accounts, we went back and asked for a breakdown from auditors, and we fact-checked with councils the value of the constituent parts of their external debt.

Colin Beattie: So we do not know how the valuation or risk analysis has been done. Is it based on any sort of mathematical probability?

Martin McLauchlan: It will be in line with accounting standards. We can write a technical note for you on that, if you require it.

Colin Beattie: I am certainly interested in knowing how it is done, because it involves high-risk debts. I would also be very interested in knowing what the interest profile is—that is, what councils are paying in interest on the debt. Are they just letting it roll over at increasing rates of interest or are they considering swapping the debt and paying it off?

Martin McLauchlan: As I said, we have not gone into the detail of that. I do not have information on it to hand, but I am happy to provide something for you.

Colin Beattie: Thank you.

On other borrowing, I am particularly interested in the profile of private finance initiative debt. It is easier to extrapolate what the progression of that will be over the years. Do we have a figure for how

the PFI debt will impact over the years? Most councils do a projection on that, which is perfectly possible because most of the PFI debts are based on contracts that detail how they will work.

Martin McLauchlan: There is publicly available data from Her Majesty's Treasury and the Scottish Government that lays out the profile of repayments for PFI, public-private partnerships and non-profit distributing projects.

Colin Beattie: Is that for the councils?

Martin McLauchlan: Yes, for the councils, and it is publicly available. Again, I do not have that information to hand. We did not focus on that, because we were doing analysis that had not been done previously on the breakdown of debt around LOBOs and other elements. However, I am happy to provide you with the information that you have asked about.

Colin Beattie: Does the Accounts Commission take any view on the quality of the debt?

Ronnie Hinds: The quality?

Colin Beattie: The quality.

Ronnie Hinds: Is that specifically on PFI and PPP?

Colin Beattie: It is related to the risk.

Ronnie Hinds: But are you asking about PFI and PPP debt?

Colin Beattie: I am principally asking about my old LOBOs here.

Ronnie Hinds: Sorry, but, just to be clear, you are asking about the debt in its entirety, whether that is PWLB, LOBO or PFI debt, and whether we take a view on the quality of that.

Colin Beattie: Every type of debt has a different element of risk attached to it, so do you take a view on how high risk it is? Do you calculate any sort of risk element in the debt and give feedback to the councils on that?

Ronnie Hinds: Okay. There will be an overview in the annual audit of all aspects of a council's finances, which will include its debt schedules and all the rest of it. If the local auditor considered anything to be questionable or problematic in any fashion, we would expect to see that coming up for an individual council in that context. There is nothing that I could bring to your attention now that suggests that there is anything like that.

In overall terms, we did a report a year or two ago on treasury management, which is where all this would come together. That report is publicly available, so you are welcome to look at that information. However, our scrutiny would be less about focusing on the specific question of quality, which is what you are asking about, and more

about seeing whether the council has proper strategies for dealing with that debt in terms of its renegotiability, its term and the rates that were signed up to in the first place. There is an overview of treasury management in that report, but I do not recall whether it goes into the specific question of quality that you are asking about. However, it is worth looking there.

Fraser McKinlay (Audit Scotland): I can maybe help with that a bit, Mr Beattie. It is fair to say that the Accounts Commission has not made, and probably would not make, a judgment about whether a particular loan was good, bad or indifferent for a council—that is the council's judgment to make.

Colin Beattie: I am not talking about a particular loan or a particular type; it is about the generic position.

Fraser McKinlay: In the report that the deputy chair referred to, we said that we did not think that councillors always had the best information available to them when making decisions on borrowing and treasury management. An important part of that decision-making process would be looking at the risk profile related to a particular type of loan. It is also important to point out that, on the back of that borrowing and treasury management report, which focused mainly on more traditional types of borrowing, the Accounts Commission asked us to look at alternative means of financing, which includes LOBOs, PFI, NPD as well as more recent means such as tax incremental financing. We are scoping that piece of work at the moment, and we will obviously be delighted to share it with you when it is done.

Colin Beattie: Your reference to tax incremental financing is interesting. Where does that appear in the council books? Does it appear as an asset or as a liability?

Fraser McKinlay: Perhaps Martin McLauchlan can help with that. If not, we can come back to you with the specifics.

Colin Beattie: I would be interested in knowing a bit more about how that is treated. We are looking at council debt. Is there some contra item that deals with TIF? Also, what is the size of TIF? How popular an instrument and means of investment has it been?

09:15

Fraser McKinlay: Rather than speculate on some of that, we will come back to you with the details. From memory, there are not that many TIF projects across the country. It is still not a major source of funding for councils, but there are some out there and, where they exist, they tend to be

quite significant. We can come back to you with whatever information we have on that.

Colin Beattie: That would be interesting.

Liam Kerr (North East Scotland) (Con): I have two or three areas that I want to explore briefly and I will jump around a little. The first area is the financial outlook. I want to look at the reserves. The usable reserves rose by 5 per cent across local government. Reserves are currently standing at £18.9 billion with debt at £13.72 billion. According to the report, the interest and repayments on that debt cost councils £1.5 billion a year. That rather begs the question whether local authorities could just decide to repay the debt out of reserves. They would take a hit but get rid of £1.5 billion of interest and repayments each year. Is that possible?

Ronnie Hinds: Yes, that is possible.

Liam Kerr: What are some of the factors that prevent that decision from being taken?

Ronnie Hinds: Nothing is preventing it. In fact, I think that we say in the report that it is being done. It is one of the reasons why the overall level of debt in local government came down slightly last year compared with the year before.

It comes back to my response to Mr Beattie's questions about how councils generally handle their treasury management and debt management functions. Reserves are one aspect of that. It is a valid decision, which is taken from time to time, to use those reserves to repay the more expensive debt in particular—perhaps debt that was accumulated some time ago before the historic low interest rates that currently prevail. That is a valid tool for local government to use and it is used.

Liam Kerr: I notice from the report that councils have been trying to increase the reserves in anticipation of future funding reductions. If that is right, sooner or later, the reserves will be spent, and you can only spend your reserves once. Does that imply that, at some point in the future, the councils could run out of money?

Ronnie Hinds: It is certainly true that reserves can only be spent once. That is one of our key messages in the report and in previous reports. We always counsel against an excessive reliance on debts to meet funding gaps and recurring expenditures. However, it is also true that, because of other aspects of the local government budget and spending, reserves will be replenished. Again, we refer to that in the report. If in the course of the year a council incurs an underspend—either because the council planned for that or because it simply happened—it can put that underspend into the reserves and therefore the reserves will increase.

The status of reserves at any point in time is in flux and they can go up as well as down. It is a function of every aspect of local government income and expenditure that they do so. Things would have to be frozen, with nothing else happening, for the reserves to be depleted over time.

Fraser McKinlay: The thing that we are most interested in, as well as the overall size or amount of the reserve, is what it is being used for. We are much more concerned if reserves are routinely used to support day-to-day spending, because that is absolutely not sustainable. It is much more legitimate to use reserves for things such as invest-to-save exercises, and we are keen to encourage those, particularly at the moment. If a council is investing in a change programme or in new technology that will deliver savings later, that is an entirely appropriate use of reserves, so it is important that councils are planning to use reserves for such things.

If councils plan to increase reserves at the start of the year and they do that as planned, that is a good thing. However, if councils happen to find, at the end of the year, that they have a few quid in the bank that they did not expect to have and they put that money into reserves, that is not so good—our view would be that presumably that money was due to be spent on something in the year.

For us, there is a qualitative judgment about the make-up of the reserve and what it is being used for, which is as important as the overall size. It is also important to remember the difference between usable and unusable reserves, which we set out in paragraph 46. A big chunk of that overall number is made up of accounting adjustments and is tied up in things such as the value of buildings. It is not as simple as there simply being a big chunk of cash that can be used to do things with; the picture is more complicated than that.

Liam Kerr: I notice that, on page 27 of your report, you say that, for the past two years—2016-17 and 2017-18—the Scottish Government has provided settlement figures for single years. Rightly, the report places quite a big emphasis on long-term planning. I presume that medium to longer-term planning becomes more difficult if councils have a funding settlement that lasts only one year. Can you comment on that?

Ronnie Hinds: I agree. It becomes more difficult, but it is by no means impossible. The evidence is that some councils continue to produce longer-term financial plans despite the fact that, as you rightly say, for the past two years they have had only one year's certainty about the major part of their funding, which comes from the Scottish Government. It would be better if they had longer-term figures from the Scottish Government to work with, but that does not preclude their

taking responsibility for taking a longer-term view of their own finances.

In the report, we refer to something called scenario planning as an example of why we feel able to say that. The future is always going to be uncertain, and not knowing what money is due from central Government or the Scottish Government makes things considerably more uncertain, but it does not mean that we cannot put together some scenarios to see how things would work out if money went this way or that way. The value of that concerns not only funding but the other things that we discuss and report, such as the pressures that the services are under because there are degrees of uncertainty attached to the factors that are relevant to them as well. All of that should come together to underpin councils' three to five-year financial plans.

Liam Kerr: I would like to change tack slightly and talk about paragraph 44 on page 18. Mr McKinlay talked about that section earlier.

For various historical reasons, I am interested in the generation of savings through reductions in the workforce—I acknowledge that a more detailed report on councils' workforces is due to be published later. The average cost of exiting staff appears to be around £39,000 per staff member, and the report says that that cost comes from redundancy payments or early retirement costs.

Do you have any information about what proportion of the 13,000 staff who have left councils have done so through redundancies and exit packages? Have a significant proportion of staff not left councils through redundancies and exit packages?

Martin McLauchlan: We can provide a breakdown of exit packages by council. The remuneration reports and accounts show the information in bands, so we are able to show you how many of those packages were for lower-paid staff, how many of the packages were for up to £20,000 and so on. We can stratify it in that way. I imagine that we will be able to provide you with something on the breakdown of how many exited through retirement and how many did so through voluntary redundancy, but I do not have that detail to hand.

Fraser McKinlay: It is worth saying that exhibit 6 concerns only people who received an exit package, which covers a number of things. Other people will have left under normal circumstances, but that is not what exhibit 6 is concerned with. If your question is about the total number of staff reductions in local government, I can say only that we will pick up on that in our next report. Some of the people who left local authorities will have received exit packages and some will have left under normal circumstances and might not have

been replaced. There is a difference, and the next report that we issue will help with that.

Liam Kerr: I look forward to that. I would appreciate your providing the detail, if that would be possible, because I am interested in what those who get exit packages get them for.

Fraser McKinlay: Sure.

Liam Kerr: That leads me on to my next question. Do you have oversight of why exit packages are enhanced? Is there a contractual scheme in place that every council must follow or are there variations between councils?

Fraser McKinlay: The short answer is that there are variations. Different councils will make different judgments at different points in time. The reason for some of the bigger numbers back in 2011-12 is that some councils decided to enhance what was on offer by way of voluntary redundancy schemes in order to generate interest and to reduce costs quite quickly. We do not take a view on whether that was right or wrong, but we take a view on whether the business case was sound and stacked up. If a council offers an enhanced package, it must be clear how and when it will get that money back. A value-for-money case must be made, which must be monitored as people leave the organisation. That is extremely important.

It is perfectly legitimate for councils to make different judgments, but the business case must stack up. That is the kind of thing that we look at. Councils will make those different judgments at different times, depending on what they are trying to do. For example, in the early days it was typical for a pretty wide-ranging offer to be made that was open to most council employees, whereas these days, now that councils have done that and have shed some staff, a more targeted approach is taken in voluntary redundancy exercises that involves targeting specific parts of the workforce.

Over the years, the commission has been clear about the need for more targeted and better understood workforce planning, because in recent years councils have let people go without necessarily understanding the impact of that on services, on teams and on experience. In the past few years, we have said that councils can by all means decide to pursue voluntary redundancy schemes—they are a useful management tool that can save money in the long term—but that they should be clear about the implications of such decisions.

Liam Kerr: I have a quick final question on the issue. In your March 2017 report, will there be a breakdown of bonuses in local government? You will look at the people who leave councils. Will you also look at senior management bonus schemes, if there are any?

Ronnie Hinds: I do not think that we have any specific plans to do that. I am not aware of such bonus schemes being prevalent in local government. If they were, we would expect to see that in individual audit reports on individual councils. Nevertheless, I am happy to take on board the suggestion that we should at least ask the auditors to inform us whether there is anything that they are aware of that it would be worth reporting in our 2017 overview report.

As I said, the use of bonuses in local government does not seem to be a high-profile issue, because it is not that prevalent.

Liam Kerr: It would be interesting to know about that.

Ronnie Hinds: Sure.

Liam Kerr: Since your report came out, we have had a draft budget that appears to continue a long-term decline in funding for local government. Are you able to comment on the practical impact of the draft budget?

Ronnie Hinds: No. The purpose of our report is to inform the debate that always takes place on local government funding at this time of the year, but it is not appropriate for the Accounts Commission, as an independent audit body, to be drawn into what is still a live discussion about policy and other aspects. We hope that our report is useful in informing that discussion, but we are not in a position to talk about the current state of play regarding the local government settlement and the negotiations around it.

The Convener: I have a supplementary question. As we know, audit work is retrospective. In the previous budget, local government faced—correct me I am wrong—cuts of £350 million. From an audit position, given the work that you have done in looking at council budgets, are council budgets sustainable in the face of such reductions?

09:30

Ronnie Hinds: As we say at the beginning of the report, nothing coming out of the audit process suggests that any council in Scotland faces financial difficulties to the extent that its budget would not be sustainable. However, we recognise that the trend that we describe in the report and in other reports is such that, unless it were to change, there will come a point at which we will have to consider seriously what it means to make the kind of savings that councils are required to make. Councils will be doing that, but we have no reason at all to suggest at this point that local government is in any kind of financial crisis or that any individual council is not able to make the savings that have so far been demanded of it.

The Convener: That leads me to another point about which I am concerned, Mr Hinds. The report points out that spending on statutory obligations such as social work and education is being protected and says that that could be to the detriment of other services. How worried are you about that?

Ronnie Hinds: It probably does not matter how worried I am personally about it. However, you are right that the report tries to suggest that one of the unintended consequences of the savings that have been required of local government and the way in which it has had to make those savings is that, for various reasons, a higher degree of protection has been afforded to some services, which has to be at the expense of others. It is a zero-sum gain in that respect.

You may be thinking about the presentation in exhibit 4, which shows in high-level terms the impact on various local government services over five years. It is easy to see that the services towards the top of that histogram—functions such as roads and transport, environment and leisure and recreation, which are important public services—have borne a bigger share of the savings that have had to be made. I do not say that they have borne an unfair share; it is just a bigger one. If that were to continue indefinitely, everybody would ask—and the public should ask—what would be the likely long-term impact of that on the services that they value.

The Convener: Did you consider the preventative spending agenda in the report? I have raised it with the Auditor General before. The services that you highlight, such as leisure and cultural services, are very much considered to be part of preventative spend. There is evidence to show that participation in libraries, sports services and other things that give cohesion to, and provide activity for, our communities can reduce reliance on statutory services such as social work and the criminal justice system. Did your report consider the preventative nature of those services and the financial pressure that they are under in local authorities?

Ronnie Hinds: No, we did not consider that explicitly in the report. The report is for a dedicated purpose, and that would not be part of it. However, we and the Auditor General are interested in preventative expenditure in other aspects of our work. Perhaps one connection between that and the content of the report is the point that I made in my opening remarks about what we call transformational approaches to the delivery of services in the face of a continuing requirement to make financial cuts. Preventative expenditure would be part of that transformation. If we can prevent problems from arising in the first place, particularly in social care for instance, the

pressure on the front-line budget for social care would, we hope, be somewhat alleviated as a result. We talk about a desire and a need to move away from incremental approaches towards something more transformative, and that is the kind of approach that we have in mind.

The Convener: Given the budget settlement for last year that you have just reviewed in the report, is that kind of transformation achievable?

Ronnie Hinds: Yes. I cannot say for sure, but there are various streams of activity that should lead towards that. Health and social care integration should be a primary example of a transformative approach. You do not need me to spell out what it is intended to achieve, but we would hope that better collaborative working between the different public agencies that have responsibility for such care would have a preventative effect on some of the issues that otherwise would have to be dealt with in acute services in hospitals or somewhere else in the care system.

We are aware of no reason to think that the intent and the means to do that are lacking. However, to get on to that footing there must be a more concerted effort, particularly in relation to local government, which is already a focus. We fully recognise the difficulty. I will not pretend that it is easy to maintain services on a daily basis while, in the background, trying to change entirely how they are delivered, but that is what has to be done, and everyone recognises that.

The Convener: I think that all members of the committee recognise that, but is there sufficient funding to achieve that from the local government point of view?

Ronnie Hinds: Yes.

The Convener: Thank you.

Alex Neil (Airdrie and Shotts) (SNP): Mr Hinds, I draw your attention to paragraph 14 of the report, where you say that the reduction in local authority funding over the past six years has been

“approximately the same as the reduction in the Scottish Government’s total budget over the same period.”

I take it that you stand by that point that local government has not received an unfair reduction given the overall reduction in funding available to the Scottish Government?

Ronnie Hinds: We stand by the figures in the report. We have not said whether that reduction is fair or otherwise, but we stand by the figures.

Alex Neil: Broadly, the percentage reduction is the same as the overall reduction in funding for the Scottish Government.

Ronnie Hinds: Yes. To clarify, I recognise that other analyses are possible and, indeed, have been made in that regard. We are not saying that ours is valid and those others are not. It depends on the purpose of the analysis and what point you are trying to demonstrate or what question you are trying to answer. Our approach has been to strip out from both sides—from the Scottish Government’s funding and from local government funding—what we call the discretionary elements of their overall funding. With councils, that is council tax. We did not include council tax in the comparison that you are drawing attention to. With the Scottish Government, for the same reason, we did not include non-domestic rates, because those are at the Scottish Government’s discretion. We took out the significant discretionary elements of the overall funding equation and concentrated on what was left, which gave the figures that we have provided in the report.

Alex Neil: It is clear that the performance and efficiency of and the value for money provided by local government will be even more important than they have been in the past. That is the case for all government, including central Government and all the quangos, because the resources that are available are reducing against a background of substantially increasing demand—not least in health and social care and education, which are two of the biggest budgets in local authorities and the Scottish Government.

This might be outwith the scope of the report, but it seems to me that, broadly speaking, the drive for increased efficiency in local government is, with some notable exceptions, pretty sporadic, unsystematic and lacking in ambition. I represent an area in which I see massive waste in the local authority, and I live in another local authority area where we see massive waste in the delivery of services. What is the Accounts Commission doing about improving efficiency, reducing waste and improving performance and value for money? How and when will you report on that?

Ronnie Hinds: You are right in saying that that takes us well beyond the remit of the report. The answer is that we do a wide range of work that is intended to illuminate the debate on those issues. We carry out performance audit studies, as does the Auditor General. We focus primarily on local government and look at aspects of a particular service to see whether we can identify good practice and not-so-good practice. We then report publicly on that so that the difference is visible, and the invitation and recommendation are there for those that are not doing so well to learn from those who are doing better. We do that kind of work routinely year in, year out. We have a performance audit programme that covers a range of topics and that changes from time to time, on

which we consult local government and other interested parties.

We strongly support local government's activity in that regard. The most prominent example is probably the benchmarking initiative that it has been running for four or five years, which involves local authorities gathering a great deal of information, some of which is quite detailed, on the services that each council provides and using that as the basis for the kind of comparisons that I have just described. We see significant variations in cost and performance when we look at the data, and local government is fully aware of that. The injunction from us to local government and from local government to itself is to make better use of that data so that councils that could benefit from adopting a different practice and providing a service in a different way, when someone else has done that successfully, have the information and incentive to do that.

There is quite a lot of activity at local government's own hand and through us to provide not just the information but the incentive to do that, and there is evidence that it has been happening. If we look at trends over the past four or five years in what I would call productivity—the cost to performance ratio, if you like—we see a discernible trend of improvement across local government as a whole and within individual councils. That improvement is not uniform and there is scope for it to go quicker and further, as local government would recognise, but I take issue with any suggestion that there is indifference out there. I do not think that there is, although there is certainly scope for more improvement than we have seen so far.

Alex Neil: I suggest that there is quite a lot of scope. In the figures later in the report on the percentage of council tax revenue that is actually raised, Perth and Kinross Council stands out as the best performer in the whole of Scotland. If every council in Scotland was as good as Perth and Kinross at raising council tax, how much additional revenue would that bring in?

Ronnie Hinds: I do not know the answer offhand, but we could look at that and tell you.

You raise an interesting and useful point. In the report that we produced last March, which was the sister report to the one that we are discussing and which looked more widely at performance, for the first time we made an explicit comment—I think that it was in relation to staff absences—about the improvement in performance and reduction in cost that councils might see if everyone operated at the level of the top quartile. I think that that was the figure that we chose.

That is quite a challenging approach to take. It invites a response such as, "Perth and Kinross's

circumstances are not North Lanarkshire's circumstances", and there is some validity in that. There are contextual factors—socioeconomic and others—that have a bearing on some aspects of service. That is probably why we chose staff absence, because those factors will be less relevant for that figure, but for the provision of education or transport services it is valid to make such comments.

We need to get beyond that initial response and ask, "Is it not still possible that in this case Perth and Kinross is just doing something better than the rest of us, and should we not know about that and all adopt it?" That is exactly the right attitude, which we want to encourage. We think that local government itself is very aware of that.

Alex Neil: One of the complaints that I get from headteachers in my constituency—I know that my colleagues get it as well in certain council areas—concerns the number of people who are employed in the central education bureaucracy in the council. The concern is that people are plucked out of the classroom and transferred into the central bureaucracy without being replaced in the classroom. That happens not just in the council that I represent; teachers make the same criticism in the council area that I live in, and yet, in the 18 years that I have been in the Parliament, nowhere have I seen any analysis of where the money that we spend on education through local authorities actually goes.

Given the recent report on Scottish education and how we are allegedly falling behind, local authorities have a huge responsibility for that. They have responsibility for delivering education. It gives me a great deal of concern that we are, quite rightly, spending a large amount of money on education, but that the way in which that money is being spent is not maximising educational performance.

If we look at some of the central services that councils obviously have to provide, the shared services agenda is almost non-existent; the amount of shared services in education is absolutely minuscule compared with the total provision of shared services that is required. Is it not about time that the Accounts Commission put a foot on the accelerator on that stuff, as part of improving value for money, but also in that case as part of the overall drive that we all want to make to improve educational performance?

Ronnie Hinds: I will take the latter part of your question. Fraser McKinlay might want to comment on your earlier observation about how the money is actually spent, whether that is on education or some other part of the councils' accounts.

I remind you that the commission is not a regulator, so we are not in a position to say, "This

is how it should be done, so do it this way.” We use the tools at our disposal—public reporting is perhaps the key one—and any influence that we can bring to bear, as I have already described.

I will take shared services as an example to illustrate what I mean. Wherever we are able to find good practice in sharing services between councils—and there are examples of that—we highlight that in any way possible. Say that we are reporting on best value in an individual council—if that council has embarked on a shared services venture with surrounding councils or someone else and that seems to be working well and is producing results, we certainly say that in our report.

09:45

The reports, which are critical, are intended to hold councils to account. They are also intended to identify and to support improvement, which is an important aspect of our business. Taking that approach puts us in a stronger position when we go to other areas to report on best value and find that nothing of that sort is happening. We can demonstrate that such action is being taken elsewhere and we can ask why it is not happening in the area that we are reporting on.

That is the kind of thing that we do. It makes a bit of a difference to how councils do their business, but we cannot insist that councils use shared services.

Alex Neil: Let me give you two examples of shared services, the first of which is the Clyde valley waste project, in which five councils are involved. That has been a dreary failure. It has not delivered; it has taken years to get to nowhere. Secondly, my understanding is that the education shared services project between Clackmannanshire Council and Stirling Council has collapsed.

Will you give me one example in which significant agreements to share education services between any two or more local authorities have worked?

Ronnie Hinds: Off the top of my head, I cannot think of anything that directly relates to education. I know that Ayrshire—

Alex Neil: That is because it does not happen.

Ronnie Hinds: It could just be a failure of memory on my part. I do not pretend that I can remember everything that happens.

Alex Neil: Will any of the panellists give us an example?

Fraser McKinlay: I agree that you will not find many examples of shared services in education, Mr Neil.

Alex Neil: Can we find any examples?

Fraser McKinlay: I do not know. We can check—

Alex Neil: I can tell you the answer. You cannot find any examples because they do not exist. What are you doing about that?

Fraser McKinlay: The fact that we have not come across them suggests that there probably are not any. In terms of—

Alex Neil: With all due respect, producing report after report is fine, but it is a bit of a waste of time and resource if you do not follow them up and report on what actually happens.

Ronnie Hinds: In fact, we do that. Part of our strategy is to do follow-up reports on councils and on some of our best value work, too. If the commission is not satisfied that a council is performing sufficiently well, we ask the controller to come back with a further report in 18 months or so.

Alex Neil: For years, you have—rightly—preached the need for shared services. The average council spend on education is 40 per cent of its budget. You have not done anything to make shared services happen. You have produced reports that say that that should happen and what the benefits are, but when will you use your influence? I realise that you are not a regulator and that you cannot force local authorities into agreements, because you do not have the power to do that, but you are part and parcel of the overall machinery of trying to influence and to get councils to get their act together.

Education is a good example of where we are falling behind, according to international studies. Local authorities are responsible for the delivery of education. They are failing in that responsibility. Part of the Accounts Commission’s responsibility is to help John Swinney, the education quangos and everyone else to try to address the issue. We all know that one way in which to address the matter is to get better value for money and to improve the delivery of, for example, shared services.

Ronnie Hinds: There is a lot in your question, and we will try to unpick parts of it. I am not aware of any evidence that says that shared services would—by themselves—make a specific contribution to the issue that you raise about educational attainment. I am not saying that there is not any evidence; rather, I am saying that I am not aware of it. Therefore, it is not obvious to me that shared services would be any part of the solution to that—

Alex Neil: You are now saying that shared services are not a priority in education.

Ronnie Hinds: No, let me finish. That is my first point. Secondly, there are examples of shared services in local government. We are not saying that there are enough of them or that they are all successful. You have—rightly—drawn attention to two that were tried, but which foundered. That is regrettable, but it does not mean that shared services should not be tried again—

Alex Neil: Can you give an example of a successful shared service?

Ronnie Hinds: There is a shared road service in the Tayside area that has been going for quite a number of years now—

Alex Neil: The shared road service in Ayrshire has been a disaster—

Ronnie Hinds: You asked for an example of something that works. That is one such example; there are examples elsewhere further north of people trying to share services for finance functions. It does happen.

Our point is about the scale and the ambition to make sure that it is sustainable. You are right to say that it is one thing to try it but, if you fall over at the first hurdle, you have not achieved very much. We are therefore trying to identify what it means to have a successful venture in that regard and to put that out there.

Finally, in relation to education as well as other services, I return to my point about shared information—it might not only be about shared services. If a council can demonstrate that the level of attainment for, say, the most deprived pupils in its area is increasing faster than it is for Scotland as a whole—there are instances of that happening—it is incumbent on other councils that are interested in trying to emulate that to ask what that council is doing and how they could follow it. That does not mean that they have to share an education service; it just means that they have to share an approach.

Alex Neil: I think that we would all agree that they should be able to do that. North Lanarkshire Council cannot even accurately count the number of teachers that it has, let alone engage in reaching the East Renfrewshire level of performance. What kind of start is that? What is the Accounts Commission doing about that?

Fraser McKinlay: The conversation rightly started around the question of value for money, and shared services might be one approach to achieving that—I think that the Accounts Commission has said in the past that there are lots of others. You mentioned the issue of whether there is waste within councils. We think that there is as much benefit to be gained from looking to standardise the ways in which things are done.

You made the good point that if everyone even got to the average, that would make a big difference.

There are a lot of other ways of delivering value for money before we get to the question of shared services. You mentioned Clyde valley and there are other examples. There are lots of useful lessons about the kind of shared services that may or may not work. That is not to say that we let councils off the hook, say that shared services are not important or say that they should not try, but there is something in saying that, given the amount of investment that such a shared service requires, we want to be absolutely sure that it will work and that it will deliver value for money. Given the history of the examples in education and some of the big Clyde valley-type exercises, I think that it is understandable that people are saying, “Maybe we can take a different approach.”

We wrote to the Local Government and Communities Committee last year—I think that it was in October—with examples of other shared services; admittedly they were not in education. We can share that information with the committee. There are smaller-scale examples that involve perhaps one, two or three authorities—Inverclyde Council, for example—around things such as roads.

A couple of years ago the Accounts Commission published a report on education. Although that report did not focus specifically on shared services, it referred to the amount of money that was spent and how it was spent. We did our best to break down the kinds of staffing that exist in the education service and, for example, looked at what had happened to classroom assistants and to the quality improvement function, and at different ratios and other such things. That got quite a lot of traction. We are not claiming that that report led to what has been happening in education over the past three years, but I think that it was part of the debate.

Alex Neil: It may be part of the debate, but what happened? Classroom assistants have been sacked all over the place.

Fraser McKinlay: An enormous amount is happening more broadly in how education is run in Scotland.

Alex Neil: But what added value is there? I remember the report and it was very good, but my point is that the follow-up to the report has been practically non-existent in terms of improvement at local authority level.

Fraser McKinlay: I am not sure that I would agree with that.

Alex Neil: Give me evidence.

Fraser McKinlay: I will be happy to send the committee the impact reports. For every one of our national reports, about 12 or 18 months after we have published the report we do an impact report that tries to assess what has actually happened. On that report, my team were out doing presentations to the vast majority of councils in the land. You would not necessarily yet see improvements in attainment through that that you could directly link back to our report, but I can say that it generated a lot of interest. One issue that it raised, for example, is that we know that deprivation is an issue but that it is not a defining issue: it is not a given that, if someone happens to live in a deprived area, educational attainment is bad, because parts of the country are bucking that trend.

As Ronnie Hinds said, we shine a light on an issue and go and engage with councils and elected members. I think that that generates activity locally. Whether you are yet seeing that flowing through to delivery on the ground is a slightly different question and that is why we need to continue to work harder at—as you say—ensuring that the work that we do is having an impact and making a difference on the ground. I think that we have more to do on that.

Alex Neil: If you could send the committee evidence of your added value in relation to education, I would be interested to read it.

Fraser McKinlay: It is worth bearing in mind that education is one bit—an important bit—of the Accounts Commission's remit. The Accounts Commission's education remit is primarily about the money. Education Scotland is, of course, responsible for looking at the quality of education provision.

Alex Neil: But it must be money related to performance.

Fraser McKinlay: Sure. It is value for money, absolutely.

Alex Neil: One of the constant criticisms that the Finance and Constitution Committee and the Public Audit and Post-legislative Scrutiny Committee make of the Scottish Government—with justification—is that we in Scotland have had a terrible habit of reporting on money separately from reporting on performance, although that has improved down the years as a result of the committees' pressure. The two should be brought together. I suggest that Audit Scotland should look at bringing together in one document performance and money. Looking at one without the other does not maximise our ability to properly scrutinise for value for money. At the end of the day, it is not just about the money that is going in but the performance that is coming out at the other end.

That is what is important and this overview does not tell us anything about performance.

I realise that you produce other reports on performance, but the Accounts Commission needs to get up to date with everyone else by trying to pull together information, reports, analysis of money and performance into one document instead of having it all spread all over the place. It would certainly make it easier for us to see whether we are getting value for money from local authorities or what the added value of the Accounts Commission is.

Ronnie Hinds: I refer to my opening remarks when I said that this is a departure from our previous practice. We have always produced a report in March each year that looks at local government in the round, including finances, performance and the delivery of services. The reason for pulling out this report at this point in time is as I stated earlier. It is not intended to supplant what we have done before; it is intended to complement what we continue to do.

In March this year, we will produce a report that will look at local government in the round and which will include some aspects of finances but will not contain the forensic detail that this overview includes because it is for a particular purpose. We will do our best to bring together any assessment that we can bring to bear on how well local government is performing with the money that it receives. It is the whole value-for-money question, as Fraser McKinlay said. We continue to do that; we have not departed from doing that at all.

Ross Thomson (North East Scotland) (Con):

I return to an earlier question about the statutory duties that are placed on councils and the scope that they have to make savings in their budgets. As the convener intimated, cuts sometimes fall in places such as sports facilities, libraries and other places that can make a contribution and take pressure off other services.

Looking at the duties of an average council in social care and education, which are statutory, and the policy decisions such as on the hours of nursery provision, which means capital investment in recruiting staff, what percentage of that council's budget is determined by those statutory requirements? In what proportion of its budget does it have the flexibility to make decisions and bring forward options for savings?

Ronnie Hinds: My colleagues might want to add a little bit to this. All I would say is that it is more difficult than you might think to differentiate between the services that are provided because they are statutory, and those that are not. It is a continuum, if you like, so it is hard to make a hard-and-fast distinction. If it was that easy, we would

probably try to do that analysis in a report like the one in front of you. Instead, we do what you can see in that report. We try to show that services that enjoy a higher degree of protection, for the want of a better word, whether it is because there is a significant amount of statutory underpinning to them or because of policy decisions that local government has made or signed up to, can be differentiated to an extent from other services that have less of that protection. The situation is not black and white; it is a kind of continuum. That is the best that we can do. You cannot really draw a hard line between statutory and other services.

The question that you are getting at is about where the squeeze is felt most keenly, and because that is an important question, we try to provide an analysis that we think gets at that issue in the best way that we can.

Fraser McKinlay: This is a debate that happens a lot in local government. It is worth bearing in mind that lots of services are statutory—councils are required to provide a library service—but the question is about how the service is provided. Exactly the same applies to education. There is a requirement to deliver education to children and young people up to a certain age, but there is quite a large degree of discretion in how that is delivered, and councils do it differently across the country. It is important to recognise that when, in effect, two thirds of council spend goes on education and social care, if you are protecting those areas of spend, whatever cuts are coming through are disproportionately affecting other areas. We are keen to avoid sending a message that those areas cannot be touched.

10:00

We have just had a conversation about what might be done in education, and exactly the same applies to social care. We need to be a wee bit careful that, in trying to define statutory and non-statutory services, we do not inadvertently send the message that there is nothing that can be done with certain things, and that we need to focus all our attention elsewhere. Given the size of social care services and how much money is spent on them, there has to be change and transformation that improves the way in which they are delivered, improves outcomes and does it more efficiently.

Ross Thomson: I declare an interest as a serving councillor on Aberdeen City Council.

In relation to what you have just said, particularly about transformation, we see clearly from the report that local authorities are having to deal with declining budgets in challenging circumstances, and they are looking at projects for transformation. However, they are also looking at

raising income in different and sometimes more innovative ways. That sometimes pushes them down the route of working with development partners. In Aberdeen, for example, the council has sold land and, in partnership with Aviva, is developing Marischal Square. There will also be a new exhibition and conference centre, and the council is looking at using energy to raise income.

When councils do things differently to bring in income, that brings new challenges. Sometimes it affects public confidence, because people see different deals being done and they wonder how much transparency and accountability there is. Many more councils are being forced down that sort of route.

With regard to your role, how are you keeping on top of the new and different ways of raising income that councils are trying? How are you ensuring that there is a level of scrutiny and accountability that makes sure not only that everything is above board, but that the public can have confidence in what councils are doing?

Ronnie Hinds: That is a challenging question. The starting point would be that the commission asks the local auditors to be its eyes on the ground. The best way for us to find out, in a reliable fashion, what any individual council might be doing in that regard would be to get information from the local auditor. We get that routinely. It is not just a once-a-year exercise whereby they produce another report for the controller and the council; it is an on-going intelligence-gathering exercise. We would expect to be sighted pretty early on any significant development, particularly one of the sort that could be described as having challenges and risks attached to it, and which could involve reputational damage and damage to public confidence. We expect to see that information, and we will ask questions about it.

Mr Beattie asked about LOBOs. I can remember quite recent conversations in which, having seen the information that was coming through on the accounts, we asked the local auditor what more they could tell us about what is going on in the council concerned as regards how it is going to finance what it is doing. The same would be true of some of the development projects that you are talking about.

We are sighted on that, and we are also aware of the fact that those pressures are likely to bring more of that to the surface, because a council that is trying to cope with them in anything other than an incremental way ought to be looking at things that are different. Although what goes on south of the border is out of our remit, we see that a number of councils there are taking part in quite high-value—and potentially high-risk—property development activities, because that will generate an income flow for them.

That is perfectly understandable and legitimate as it stands, but if we were auditing such activities, we would look very carefully at the due process, the diligence and whether the skill set to do the project properly was available within the council. Although the situation is not as pressing in Scotland at the moment, we recognise the direction in which the trend is going here, so we are careful about that. We ask questions all the time about cases in which such activity might be starting to be talked about, never mind contracts being signed.

Ross Thomson: In relation to Alex Neil's point about fat, I know that in Aberdeen City Council, which is the lowest-funded council, any low-hanging fruit has gone and any fat has been cut to the bone. That is why the council is now doing things differently, for example by issuing a bond for £350 million through the London stock exchange. It is the first council in Scotland to do that. Other authorities in Scotland are now very interested in the implications of that, particularly given that it will be for capital investment. Again, that will bring new challenges for you.

What has been your analysis of what the city has been doing? From your point of view, in terms of accountability and scrutiny, what work have you done in relation to that and the implications that it could have for other Scottish authorities if they choose to go along that line?

Ronnie Hinds: It is obviously very early days for the Aberdeen bond, but it is on our radar. Fraser McKinlay might know a bit more than I do about what the current state of play is from our point of view.

Fraser McKinlay: We are very interested in it, as you can imagine, with Aberdeen being the first city to do that. We do not have any sense that other councils are rushing to the markets so far, but we will keep a very close eye on that.

Interestingly, the auditor in Aberdeen city has looked at that and has reported on it this year in his annual audit report. Interestingly for us—this is why it is interesting new territory—the auditor has a role in the process, because the credit agencies sought a view from the auditor on our experience of auditing the council. It is quite new territory for all of us, and we are doing a piece of work to understand exactly what the full implications of it will be for our work going forward. Earlier, we had a discussion with Mr Beattie about different and alternative means of financing. The bond is another new method of financing that we will want to keep a very close eye on.

Ross Thomson: What work or analysis is done on local authorities that struggle to recover debt, to the extent that they sometimes have to write it off? In Aberdeen—sorry to be Aberdeen-centric, but I

know that the situation will be similar in other authorities—over the past five years, more than £11 million has been written off, and that has had a significant knock-on effect on council budgets. There might be a number of reasons for that. Some debt might be genuinely unrecoverable, and Government decisions on issues such as the community charge might have had an impact. How much work have you put into analysing what kind of knock-on impact that has had for councils in managing a difficult financial situation?

Fraser McKinlay: Martin, I am looking at you, but I do not think that we have done a huge amount of analysis specifically on debt write-offs, have we?

Martin McLauchlan: No. They will have been carried out during each council's annual audit process. As far as I am aware, we have not done any work to look at the situation as a whole for the 32 councils.

Ross Thomson: I know about the scale of the issue from a local perspective, but it would be interesting to find out what level of debt write-off we are looking at from a Scotland-wide perspective.

Councils such as the City of Edinburgh Council and Aberdeen City Council raise quite a lot in business or non-domestic rates. Especially when they tend to have low funding settlements, it is extremely important that they can generate that revenue. If we look at the draft budget, we can see that there are increases to business rates coming down the line, and a number of businesses in the north-east have already expressed concern that that might send them to the wall. If they go to the wall, we will not be able to collect their business rates. The rate is still based on the level in 2015, when our economy, in particular, was hot, and now it is not. You could say that that is quite unfair.

What work will you carry out in relation to the impact of NDR, particularly in the north-east of Scotland?

Ronnie Hinds: If I understand the thrust of the question correctly, from the Accounts Commission's point of view the answer is that nothing immediately comes to mind, because those decisions are made by the Scottish Government. The collection of the rates is the responsibility of the councils, but decisions on the levels and reliefs and so on are out of the councils' hands, so from our point of view it would not be a matter of focus in the audit of councils' accounts.

Ross Thomson: Do you take into account the 85 per cent funding floor for local authorities and the funding formula behind that?

Ronnie Hinds: Do you mean in the local government finance distribution?

Ross Thomson: Yes.

Ronnie Hinds: The answer is that we do not take it into account, because the question for us would be in what way that was an audit matter. We would see that as being part of an overall policy approach to the funding of local government. As we see it at the moment, the floors, the ceilings and the distribution mechanism are entirely a matter of on-going discussion and debate between the Scottish Government and councils. In our view, that represents a policy issue, so we would not have any audit comment that I can think of to make on whether that 85 per cent was the right figure, or whether there should be a floor in the first place.

Ross Thomson: That is interesting, because there is a debate right now, in relation to the circular, about the formula behind it. There is uncertainty about whether it includes all 32 local authorities; it seems that a number of authorities might be excluded and that the figure is actually 80 per cent, not 85 per cent. I asked the question to try to tease some of that out, but I appreciate that that is a policy matter and not one for you.

Thank you—that was helpful.

Gail Ross (Caithness, Sutherland and Ross) (SNP): Statutory duties were mentioned, and it was said that councils have a statutory duty to provide things such as libraries, but what if the leisure services are now provided by an arm's-length organisation? Is there still a statutory duty on the council?

Ronnie Hinds: The statutory duty remains on the council. It is the council's decision how best to meet that duty and deliver the service. If the council has chosen to do that through an arm's-length organisation, which is a valid decision for it to have made, that does not change its statutory responsibility.

Gail Ross: I just wanted to get that clear. Thank you.

In paragraph 40, you talk about some social work budgets being hugely overspent, but in paragraph 41 you say:

"Conversely, around a third of councils reported underspending against their education budgets ... and several councils underspent against their social work budgets."

You go on to talk about the City of Edinburgh Council's overspend. I take it that the additional funding of £9.8 million came from central Government. You then say that the council

"underspent its total budget by £3.4 million."

Where does that £3.4 million go? Is the £9.8 million a loan that needs to be paid back? Could you explain that paragraph?

Ronnie Hinds: Martin McLauchlan might correct me if I am wrong, but I think that the £9.8 million would have come from a decision by the council to put more money into social work, reflecting, I presume, what we say about the overspend in previous years. That is what we would expect to see. You do not disregard the outcome from a previous year when setting the budget for future years. I think that that money for social work came from within the council.

Gail Ross: Okay. On that point, a lot of councils had medium to long-term financial plans, but three did not—Highland Council, in my region, was one of them. Are there any disadvantages in not having a medium to long-term financial plan?

Ronnie Hinds: In not having one?

Gail Ross: Yes.

Ronnie Hinds: We are strongly of the view that there should be medium to long-term financial plans.

I add the proviso that we should recognise the reality of the situation and the fact that, for a given council, it might be a cyclical issue. The council might have decided that it wants its strategic plan—its council plan—or its community plan to cover a given period of, say, the next five years. Another council might take the view that its plans should cover three years. If either of those councils then says that its financial plan should be aligned with its other plans, its financial plan will come up for renewal at a point when the financial plans elsewhere are not coming up for review. The proviso is that it is valid for a council to make that decision locally—that is why we have local councils.

Nevertheless, we say that councils should take a forward view of their finances. Even if that means that the financial plan gets out of alignment with, say, the community plan, which is not up for renewal, they should still be looking at their own finances two to three years down the road. It would be nice if everything slotted together harmoniously, but if, for good reasons, that cannot be the case locally, we still think that it is important that councils take a long-term view of their finances. I cannot honestly think of any downside to their doing that. I fully recognise the challenges and difficulties in that, but I think that the benefits are manifest.

Gail Ross: Okay—thanks.

I would like to follow up on the earlier question about reserves. I know that Highland Council has used quite a lot of its reserves, mostly for its voluntary redundancy scheme. There was talk—it

is mentioned in the report—of planning ahead to increase the reserves again over time. Given the tens of millions of pounds of savings that councils are having to make, how on earth can they possibly plan to increase their reserves? Where is that money going to come from?

Ronnie Hinds: Fraser McKinlay might want to answer that question. It is a decision that councils are entitled and able to make locally. I will give you a hypothetical scenario, as I do not know the situation in Highland at close quarters. If a council took the view that the next year was going to be difficult but that the two years beyond that were going to be much more difficult, a legitimate aspect of coping with that situation might be for it to try to augment its reserves in the next year, even though it would have to make savings just to balance the books. It could just go further and make more savings. For us, that would be a good example of the benefit of long-term planning. We can imagine the scenario if the council did not do that—it would cope with a difficult situation in year 1 and then find horrendously difficult situations round the corner in years 2 and 3 and, hey ho, the reserves would be no use to it because it would have used them for year 1.

10:15

That is exactly the kind of approach that we think councils should take if they have that view. How hard it is for them to do that depends on their local circumstances. Among other things, we say that, if councils have already had to make really deep savings in particular areas to get to where they are now, it will be that much harder for them to do it going forward. They are not all in the same position, and I do not know offhand how difficult Highland's position is compared with that of others.

Gail Ross: The report mentions that you will report on equal pay settlements in 2017. Will that come out with the March report or will it be a separate report?

Fraser McKinlay: That will be a separate report that will focus specifically on equal pay in local government. It will come out towards the end of May or in June.

Monica Lennon (Central Scotland) (Lab): I, too, draw the committee's attention to my entry in the register of interests, as I am an elected member of South Lanarkshire Council, although my comments will be general and across the board.

The discussion has been useful. Such reports can sometimes be very dry, but the fact that we have got into issues such as education illustrates the importance of audit and scrutiny. The outcomes in educational attainment that we are

seeing are challenging, and the Government's top priority is to close the attainment gap.

We have the report and we have discussed it in that way today, but how can we improve the public's understanding of what is happening? Some fairly provocative language has been used about bureaucracy, for example, but I am not sure that there has been a mass exodus of teachers shifting from classrooms into administrative roles—if there is evidence of that, it would be good to know. However, we know that there has been a huge reduction in the number of classroom assistants and additional support needs teachers. The education team that is required in the classroom environment has diminished. Educational psychologists, who perhaps count as central office bureaucracy, have been reduced by 10 per cent across the board.

To what extent do we know what impact national policy is having on some of those decisions? Looking at things the other way round, how is what is happening at local level impacting on the Scottish Government as it tries to deliver on national objectives? There is a temptation for all of us to look at local government and central Government in isolation and to try to compare performance but, at the end of the day, it is all part of the same picture. There are variations in reporting, but do residents in Scotland have enough information to know how well their local council and the Government are performing? Could you perhaps try to answer that?

Ronnie Hinds: I will have a go first and I am sure that my colleagues will want to say something as well. On the point about how we can all better contribute to an improved understanding among the public of some of the issues that you have raised, I will go back to basics. There is a duty on councils to report publicly. Previously, the commission's role in that was to stipulate a set of indicators, as we call them, and to say, "Report on these." We departed from that strategy a number of years ago, because we took the view that, with all respect to ourselves, we might not be the best judges of what is relevant to people locally and that councils ought to have a better handle on that than we do. Therefore, we have put the matter into local government's hands and it now largely determines the fashion in which it wants to fulfil that statutory responsibility.

That is really just a baseline because, in fulfilling the responsibility, councils can say things over and above what they are statutorily required to say and they can do a better or worse job of that. The commission and the auditors who work on our behalf look at that and ask how good councils are at reporting to the public. That is not an easy question to answer, but there is information that can inform a judgment on it, and we tend to look at

that quite carefully. In the approach that we will take to best value from this year onwards, we are keen to bring the public's perspective more to bear on the work that we do and, through that, on what the councils are doing to report their performance.

We are not yet sure how to do that, but it is a high-level objective of the audit approach. We could use some kind of people's panel to get their perspective on their local council. That is always an interesting exercise—I do not need to tell Monica Lennon that, as she is a local councillor. It is also a matter of asking what the council is doing about that and how well it is gauging the public mood and public perception of how it delivers services. That goes back to some of the points that Mr Neil made earlier. We already know that some councils will have a better answer to that question than others.

This is my last point before I hand over to Fraser McKinlay. We think that it is increasingly important, as councils face further reductions—which is the trend that we see—that they communicate openly, honestly and transparently with their public in a way that helps them to understand the decisions that they feel they must make. That is an interesting area for us to pursue as part of our best-value approach.

I am not saying that you would get a better set of budget reductions as a result of councils doing that—although we would hope that you would do—but, at the very least, you would have an explanation to offer for what you are right to suggest might otherwise be inexplicable to members of the public. They might ask, “Why are there not any classroom assistants in my classroom any more?” The better the job the council makes of explaining why it has had to make that change, as it sees it, the better it will come out of a best-value audit by us. Obviously, we will look at other things, too.

Fraser McKinlay: On the best-value approach that the deputy chair has just described, the commission has asked me to report on every council at least once in the five-year cycle of this audit appointment, so local people will see at least one set-piece report on councils delivering best value or otherwise.

On Ms Lennon's question about how we can look at the national and local aspects together, that is one of the things that Audit Scotland can do on behalf of the Auditor General and the Accounts Commission in reporting to the committee. We are able to report on issues that span national policy and local delivery. A good example that is coming up is the report that we have on the stocks on childcare and early years provision, which examines the national commitments on that and the challenges around delivering it locally. That will come to the committee in the usual way.

Monica Lennon: I wish to touch on integration joint boards. Ronnie Hinds made a point earlier about transformational change. The committee has considered that before, and we are all hopeful and optimistic—but, at the same time, there are concerns. Previous witnesses have told us that it is very difficult to set or align budgets so as to agree priorities between councils and health boards. What is your role, and what is the Accounts Commission's role, in scrutinising that and flagging up potential problems?

Ronnie Hinds: The commission's role is to appoint the auditors who audit the IJBs. We have already done joint work with the Auditor General on considering the very early stages of health and social care integration and how the IJBs were shaping up to the task in their first few months. That report is already in the public domain, so I will not take up the committee's time by going through the key points, but you would not be surprised, on reading it, to find that there were at that early stage a number of unanswered questions to do with governance, accountability, strategy, workforce planning and so on.

Our intention is to do two further reports on that—again, jointly with the Auditor General—at what we think will be useful points in time. Some time later this year we will see how well the IJBs are faring after what will be getting on for 18 months of activity. Perhaps a year to 18 months after that, we can ask whether they are getting close to delivering the outcomes for which the policy was intended. That is our strategy.

The Convener: Paragraph 24 of the report says that

“Service income increased in ... education, roads and transport.”

What is the service income from education?

Ronnie Hinds: Do we have that figure?

Martin McLauchlan: Are you looking for the exact figure?

The Convener: I am looking for where the income comes from.

Martin McLauchlan: That is a challenge in the accounts. We are very careful when we refer to service income, fees and charges, because an element of that—where there is specific grant funding from either the Scottish Government or another source—is recorded in the accounts as income alongside fees and charges.

A breakdown of examples of education income will include income from renting out areas of schools for community use or other uses, and there will also be charges between councils for providing different education services.

The Convener: I think that we have just established that that is not happening. Do you have examples to show that that is happening?

Martin McLauchlan: That is a general example: if we are considering services and incomes, there will be an element of re-charges between authorities.

The Convener: So, there are charges between authorities for education income.

Ronnie Hinds: Yes.

Alex Neil: I presume that you are referring, for example, to authorities that do not have facilities for disadvantaged children, who must be provided for elsewhere.

Martin McLauchlan: Yes.

The Convener: So, is that the make-up of the service income?

Martin McLauchlan: Yes. I will not be drawn on the specifics of each of the 32 education authorities' incomes because I do not have that information to hand, but there will be common examples including rental income or fees and charges for inter-authority transactions.

Ronnie Hinds: Some councils might charge for home-to-school transport as well. That would be fees and charges income.

The Convener: Is it possible for you to send the committee more information on that? I think that you also committed to send us some information that Liam Kerr requested.

Liam Kerr: The information would be on severance payments and exit packages.

The Convener: Can we have that as well, please?

Alex Neil: If every council is as good as Perth and Kinross Council, can we also have information on the rental income?

The Convener: Can you send us that as well?

Martin McLauchlan: Do you mean the council tax?

Alex Neil: I am sorry. Yes—council tax.

Martin McLauchlan: We will cover council tax in more detail in the March report. I believe that we will carry out some of that analysis. I will check and, if we are not doing that, we will provide it; if we are, we will advise you that it will be included in the March report.

Alex Neil: That is fine. Thank you.

The Convener: Mr Kerr asked about severance payments. Are you satisfied with governance of severance payments in local authorities?

Ronnie Hinds: That takes us beyond the report—but yes, we are. If there was any evidence that councils were not following some kind of due process—they are all different—the local auditors would report that in the first instance to the council and to the controller of audit, and we would pick it up in some general fashion in a report such as the one that is before you—

The Convener: I am sorry to interrupt. Would the auditors report on the governance? We have found so far in this session that that is often not the case. The auditors report on the bare statistics and not the governance structures around them.

Ronnie Hinds: If I have given that impression, I apologise, because it is not what I intended to communicate.

The Convener: No—that is the impression that we have gathered from other evidence that we have heard so far in this parliamentary session. In my local authority area, there have been press stories about the generosity of severance payments, in particular to senior managers. I am sure that colleagues from local authority areas throughout the country share that experience—they are all nodding. Are you satisfied that the governance arrangements for such payments that you have examined are robust enough?

Ronnie Hinds: Yes. The local audit is done to the standards that are set out in the “Code of audit practice 2016”, which is wide ranging and includes governance. The assurance that we get from the local audit process in a matter such as severance payments will, of necessity, be high level: it will be that a report was presented to the council, figures were disclosed in that report, members had the information that they required and they asked questions, got answers and made a decision.

That is what we are talking about when we talk about governance in practice. That is not to say that, in any particular instance, someone in a council or somewhere else might not receive a payment that one could say with hindsight, they should not have received. I do not expect auditors to go into the detail of every single payment—after all, councils let go hundreds of staff every year and they have to have procedures to govern that process that pass muster under our “Code of audit practice 2016”. The answer to your question in those terms is that the procedures pass muster.

The Convener: Are you saying that it is your job to accept what the auditors tell you? Has it ever crossed your mind that the severance payments that you have heard about anecdotally or through the press are too generous and that you should dig a bit deeper than the information with which the auditors present you?

Ronnie Hinds: It is our job to rely on audit evidence; that is the evidence that we have to go

on. That is the nature of the beast, but it does not mean to say that—

The Convener: If you are not going to dig any deeper, what is the point in the Accounts Commission?

Ronnie Hinds: I have not said that we would not do that. I am saying that we rely on the evidence because it is our stock in trade. However, the nature of our role is to question the audit evidence as we see fit. Therefore, if Fraser McKinlay brings a statutory report to us that says that all is well in the state of council X, our role is to query that, to ask questions of the controller and the auditors who carried out the work, and to satisfy ourselves on any aspect of the council's business on which we think that we need satisfaction, which might include whether it is overpaying.

In fact, we recently had a best-value report for one council in which we could see that the level of payment was above the average for Scotland so we asked hard questions about its policy, whether it was being properly reported to the council and whether there was local monitoring of whether the payments were made in accordance with that policy. That is our role. We asked those questions and we got the answers.

The Convener: Were you satisfied with the answers?

Ronnie Hinds: Yes—because local audit intelligence is what we have to go on.

10:30

Liam Kerr: I am interested in the line of questioning, because it is exactly what I was concerned about earlier. I accept entirely what you say, but somebody—the Accounts Commission or the auditors—is making a judgment about whether a payment is appropriate. That judgment is either being made against a set of criteria that have been laid down—it sounds as though that is not happening, because you said that there is variation in how such things are decided—or it is being made by somebody without any form of benchmark against which to say whether the payment is reasonable. Is it correct that there is no standard benchmark and that someone has to make the call on whether payments are appropriate?

Ronnie Hinds: No. Fraser McKinlay may want to come in on this. I repeat what he said earlier. We would expect to see a proper business case for an individual severance payment, if that is what we are talking about, or a range of such cases if the council is letting a number of people go because of budget pressures or whatever. Without going into the hoary detail of it, we would also

expect to see a payback period. So, if such and such a payment were to be made and the post was then not filled, we would want to know whether it would take two, three or 10 years for the council to break even on that. That is the kind of thing that we mean by a “business case”. All that is part of the governance arrangements that we would expect to see in place.

The Convener: Do you see the business cases?

Ronnie Hinds: I personally do not see them..

The Convener: Who sees them?

Ronnie Hinds: The local auditor would ask for that information if they had any reason to think that it was necessary, and will follow where the audit evidence leads.

The Convener: If auditors were not getting that information, they would flag the matter up to you and you would make further investigations. Is that correct?

Ronnie Hinds: Auditors have unrestricted access to councils' accounts and the information that the managers can provide, so they very seldom come back and say that they cannot get the information.

Fraser McKinlay: I will add a little bit specifically around severance packages, in which the audit work operates at two levels. If there is a general scheme such as there has been in lots of councils, auditors will look at that scheme and gain assurance that how it has been implemented is in line with what the scheme should be. On Liam Kerr's specific point about appropriateness of payments, we do not ask auditors to come to a conclusion on whether the level of payment is right or wrong. That is for the council to decide.

Liam Kerr: Who makes that decision?

Fraser McKinlay: The council makes the decision about the terms of the scheme, and we would expect it to look at other schemes in deciding what is reasonable. It is not for us to make a judgment about whether we think that a payment is appropriate.

The Convener: I understand that that is not Audit Scotland's role, but is it the Accounts Commission's role?

Fraser McKinlay: No. It is important that the council, as the democratically elected body, makes that judgment. Our interest is in whether implementation of the scheme looks correct.

That is the audit work at the scheme level. At the second level, all councils are required to disclose, in their remuneration report in the accounts, any payments made to individual staff members above a certain level—senior people—

and auditors will look specifically at those. If senior people have left during the year, work is done specifically to look at those individual cases. Again, it is not for us to judge whether payments have been too much or too little; we are interested in whether the process of decision making was in line with the council's policy.

All that comes to me, as the controller of audit, through the annual audit reports, and it is then my job to report any concerns to the Accounts Commission. Over the years, I have done some reports on specific cases of departures that really were not right—it does happen.

The Convener: Thank you, Mr McKinlay.

I have a final question on the attainment fund. As my colleagues have said, that is a big priority for Government. A lot of money has been allocated but there is no mention in the report—unless I have missed it—of the attainment money. Is there a specific reason for that?

Ronnie Hinds: This is the first time that we have ventured into the territory of trying to explore in a bit more detail the maze that is local government finance. I am quite happy to take on board the suggestion that a significant element of earmarked or ring-fenced money—which I think is what you are referring to—might feature in future versions of our overview report, but in the version that we are discussing, we wanted to try to illuminate as well as we could some of the mysteries around local government finance and to bring that information to bear in a useful way. There is a question about how much added value is provided by going into more and more detail, but the attainment fund is a significant sum of money and it has a particularly important purpose, so we could look at that for future versions.

The Convener: Is it your understanding that the attainment money is ring fenced?

Ronnie Hinds: When I used the phrase “earmarked or ring-fenced money”, I meant something that is not seen as being part of the general grant—the revenue support grant—which, along with non-domestic rates, constitutes 57 per cent of local government funding. The committee has heard from other witnesses that there are different gradations of separation. I see the attainment fund as being slightly outwith that, because it has a dedicated purpose.

The Convener: Will you do a financial overview report again next year?

Ronnie Hinds: We will reflect on this experience, among others, but we hope that our 2015-16 report has been helpful and that it will inform the debate. At the moment, the plan is to do that.

The Convener: If you do that, will you cover in that report the attainment moneys, which are of acute significance and interest to all elected members—especially given some of the school results that have been reported recently, which Mr Neil referred to?

Alex Neil: The national attainment fund is a bit of a hybrid between central Government and local government, particularly now that the original proposal to recycle—if I can put it that way—the £100 million has been dropped and central Government money will be used to fund the attainment fund. I presume that responsibility for looking at the fund falls between the Auditor General and the Accounts Commission, because it is a function of the Auditor General to look at a central Government fund, but the money in question is being disbursed to local authorities, at which point examining it becomes an Accounts Commission function.

It does not matter whose responsibility it is to look at the attainment fund; we want to find out whether it is working nationally and locally, and we need it to be reported on in such a way that we can do that.

The Convener: Absolutely. It is my understanding that the Auditor General is to report on the attainment fund this summer, but if the Accounts Commission's overview report is to be repeated next year, it would be useful if we could get a sense of the Accounts Commission's take on the fund. One of my concerns is about attainment money being used to backfill statutory spending that should be covered by other budgets, so I would really like to get a local government perspective on those moneys.

Alex Neil: There is a parallel—although it is not absolute—with the health and social care partnership model, whereby the two streams of money come through the health boards, which do not fall within the remit of the Accounts Commission, and flow through to the local authorities. Regardless of whether responsibility for looking at that lies with the Auditor General, the Accounts Commission or with a hybrid of the two, we need to consider how we can scrutinise the effectiveness and value for money of the health and social care partnerships. If we continue to look at local authority input separate from health board input, we will not get the total picture. We need to think about how we can get the total picture.

Ronnie Hinds: Those points are well made.

In response to the convener's question, I would be happy to look at what she suggests. I am being a bit hesitant because it depends on what interest there is. In such a report, there will always be a limit to how much we can say—even about a sum like £100 million for the attainment fund—because

we are talking about a total of £19 billion of expenditure. There might be better ways to skin that cat, depending on what the interest is. Between the Accounts Commission and the Auditor General, we are happy to take away the committee's interest in use of that fund and to think about the best way to satisfy that interest through an overview report or some other report. Is that helpful?

The Convener: Thank you very much indeed. I do not know whether this will be helpful to your reflections on whether to repeat the exercise next year, but we have found the overview report for 2015-16 to be very useful. I hope that that feeds into your decision making.

Ronnie Hinds: That is good to hear.

The Convener: I thank all three witnesses—

Colin Beattie: A promise was made that some information would be provided on TIF, LOBO and PFIs.

The Convener: I think that there are four separate pieces of information that you committed to sending us.

Fraser McKinlay: I am sure that the clerks will keep us right.

The Convener: Yes—I am sure that they will.

Thank you very much for your evidence.

Meeting closed at 10:39.

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