



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Local Government and Communities Committee

**Wednesday 9 January 2019**

**Session 5**



The Scottish Parliament  
Pàrlamaid na h-Alba



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**Wednesday 9 January 2019**

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**LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE**

**1<sup>st</sup> Meeting 2019, Session 5**

**CONVENER**

\*James Dornan (Glasgow Cathcart) (SNP)

**DEPUTY CONVENER**

\*Alex Rowley (Mid Scotland and Fife) (Lab)

**COMMITTEE MEMBERS**

\*Annabelle Ewing (Cowdenbeath) (SNP)

\*Kenneth Gibson (Cunninghame North) (SNP)

\*Graham Simpson (Central Scotland) (Con)

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

\*Andy Wightman (Lothian) (Green)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Vicki Bibby (Convention of Scottish Local Authorities)

Aileen Campbell (Cabinet Secretary for Communities and Local Government)

Councillor Gail Macgregor (Convention of Scottish Local Authorities)

Derek Mackay (Cabinet Secretary for Finance, Economy and Fair Work)

Annemarie O'Donnell (Society of Local Authority Chief Executives and Senior Managers Scotland)

Graham Owenson (Scottish Government)

**CLERK TO THE COMMITTEE**

Peter McGrath

**LOCATION**

The James Clerk Maxwell Room (CR4)



## Scottish Parliament

### Local Government and Communities Committee

*Wednesday 9 January 2019*

*[The Convener opened the meeting at 09:48]*

### Decision on Taking Business in Private

**The Convener (James Dornan):** Welcome to the first meeting in 2019 of the Local Government and Communities Committee. I remind everyone present to turn off their mobile phones.

The committee is invited to decide whether to take agenda item 3, which is consideration of the evidence that we will hear today as part of our budget scrutiny, in private. Do members agree to do so?

**Members indicated agreement.**

## Budget Scrutiny 2019-20

09:49

**The Convener:** The committee will now take evidence on the Scottish Government's budget for the financial year 2019-20 from representatives of the Convention of Scottish Local Authorities and the Society of Local Authority Chief Executives and Senior Managers Scotland, and then from the Cabinet Secretary for Finance, Economy and Fair Work and the Cabinet Secretary for Communities and Local Government.

For our first session, I welcome Councillor Gail Macgregor, spokesperson for resources, and Vicki Bibby, head of resources, who are from COSLA; and Annemarie O'Donnell, who is the chair of SOLACE Scotland.

I invite Councillor Macgregor to make a brief opening statement.

**Councillor Gail Macgregor (Convention of Scottish Local Authorities):** Thank you, convener. I thank the committee for its invitation to give evidence on the draft budget for 2019-20. Given that the cabinet secretary will appear before the committee on the following panel, it is important that the committee understands the impact that the settlement will have on local authorities. To put it bluntly, I say that the draft settlement as it is will impact jobs, front-line services and economic growth. It also puts at risk the national performance framework, to which COSLA is a co-signatory.

At present, the draft budget includes a cash reduction in core revenue budgets of £237 million, or 2.4 per cent, and a cash cut to the core capital budget of £17 million, or 2 per cent. Our figures might seem to be different to those that have been generated by the Scottish Parliament information centre, but I give an assurance that our figures reconcile with SPICe's and that we fully support and recognise the calculations that have been made by SPICe. Our figures are presented in cash terms, while the SPICe figures are mostly presented in real terms. My colleague Vicki Bibby, who is head of resources for COSLA, is here to provide more detail on such technical aspects, if members require it.

Regardless of the presentation of the figures, it is clear that the draft budget, as announced, will have a significant impact on Scottish councils, on our communities and on inclusive economic growth across Scotland. Since 2011-12, local government budgets have decreased significantly, and the rate of the cuts has been disproportionate to the reduction in the Scottish Government revenue budget. Since 2013-14, the Scottish Government revenue budget has fallen by less

than 1 per cent, while local government revenue budgets have fallen by more than 7 per cent. At the same time, the ability of councils to raise money locally has been constrained, first by a freeze on council tax and now by a cap. Scottish councils are at the mercy of Scottish Government decisions about the revenue that we will get and the limited fiscal options that are open to us.

I believe that councils have done all that they can to make efficiencies and to protect services. Annemarie O'Donnell might touch on that later. There is now nowhere else for local government to go. The cumulative impact of continuous budgetary pressure and demands on local services continues to grow. The Scottish Government has increased the number of initiatives that councils are expected to deliver, which has led to a situation in which the core is simply crumbling. Councils have been doing more with less and have achieved great innovations and efficiencies, but the challenges that are presented by the current draft budget will cause fundamental consideration of the services that are provided. We have moved beyond a streamlining and efficiency agenda.

The effect of the settlement also puts the success of the national performance framework, to which COSLA is a co-signatory, under threat. Local authorities deliver more than 60 per cent of the NPF outcomes, but the current level of the settlement and the structure of the budget mean that local authorities will be forced to make cuts in the areas that make the aspirations of the NPF a reality.

I am sure that we will discuss the issues that I have raised in more detail throughout the session, and Annemarie O'Donnell, who represents SOLACE, will be able to give an insight into the difficult decisions that councils are currently making as they prepare their 2019-20 budgets. I know that some of the issues were touched on in the committee's pre-budget scrutiny, which COSLA welcomed. As budget scrutiny moves forward in its new year-round format, I urge the committee not to forget the interrelationships among all the services that a council provides. The level and structure of the local government budget puts the councils' foundations at significant risk, which in turn threatens the ambitions that we all share for the communities of Scotland and for inclusive economic growth.

We will be happy to take questions from members of the committee.

**The Convener:** Thank you very much. In relation to the discrepancy that you mentioned between the two sets of figures, do you accept that, for example, social care, education, early learning and childcare and housing are all core

services that have to be delivered by local authorities?

**Councillor Macgregor:** I absolutely accept that they are all core services. The difficulty is that we already have commitments within the core, such as provision of free early learning and childcare. We are currently delivering 600 hours per year and that money is now sitting in our core budget. The Scottish Government priorities, which are excellent and which we support, require additional funding. For instance, the increase this year in provision of free early learning and childcare to 1,140 hours is a headline figure in Mr Mackay's budget. We welcome the additional funding, but if we cannot maintain the core, we cannot both continue to deliver the 600 hours and expand. The key is that Scottish Government priorities must come fully funded, and not at the expense of what we do on a day-to-day basis.

**The Convener:** If you are receiving the extra funding that you mentioned for the early years provision and that is part of your core budget, surely you are receiving money for your core services.

**Councillor Macgregor:** We receive money for our core services and we also receive additional money. We fully support the £400 million-worth of additional commitments on Scottish Government priorities and policies, and we are involved in a partnership to deliver them. The problem comes when we have £237 million cut out of our budget, which must come from the core 42 per cent of our budget that is neither ring fenced nor protected. The budget saving that we must find does not affect 100 per cent of the budget; it affects a very small part of the budget. The £237 million, which is the estimated shortfall at the moment, can be taken from only 42 per cent of the budget. The £400 million that has been provided for the new initiatives will rightly be spent on those new initiatives, but that will be at the expense of something else.

**The Convener:** You talk about a £237 million shortfall, but the Scottish Government and SPICE say that there is an increase in real terms and in cash terms. Can you explain that discrepancy to me?

**Councillor Macgregor:** I will defer to Vicki Bibby, who is the technical finance expert.

**Vicki Bibby (Convention of Scottish Local Authorities):** When we say that there is a cash cut of £237 million, we are making a like-for-like comparison of the services that have to be provided. As Councillor Macgregor said, there is an overall increase in the settlement, but that is to deliver £400 million of new commitments. There is not a £400 million cash increase on a basis.

The early years point is critical. The ring-fenced additional provision, which is to be fully funded, will take us from the existing 600 hours to the proposed 1,140 hours. As Councillor Macgregor said, that is what the £237 million is for, but the existing provision, which is the 600 hours, is in the core budget, which is being cut. The local government settlement is becoming increasingly complex, and the only bit of the provision that is being fully funded is the bit that will take us from 600 to 1,140 hours. The zero to 600 hours provision is in the core settlement, which is being cut. Therefore, if we look at the overall picture, we cannot say that early years provision is being fully funded.

**The Convener:** You are right: it is very complicated. I do not want to go into too much detail, because I think that we would all get lost, but given that we cannot get to 1,140 hours without getting first to 600 hours, if extra money is being put into the early years provision, surely that money must feed into the whole process.

**Councillor Macgregor:** Yes—hypothetically, that is the case. The additional funding will allow us to expand provision to 1,140 hours, which is the commitment that we signed up to with the Government and which we absolutely support. However, the core funding that delivers what we are already doing—the 600 hours of provision—is now potentially subject to budget cuts of up to 6 per cent. The budget cuts of 2.4 per cent across the entire budget are bad enough, but the cuts are potentially greater to the core 42 per cent of the budget that is non-statutory, non-protected or is not ring fenced, which is the only area that we can touch. Technically, the funding for the 600 hours sits within that. Our aspiration is to continue to deliver and to expand early years provision—of course it is—but that will be at the expense of something else within the councils' services. We must make savings at the core in order to expand and deliver new Scottish Government priorities, so there will always be something else that takes the hit.

**The Convener:** Priorities are a part of government, of course. They are part of the decision-making process, whether on local government or national Government priorities.

I have one more question before I bring in Alex Rowley. Did COSLA ask for additional funding for social care when it was in discussions with the Government?

**Councillor Macgregor:** Yes—we asked for a fairly significant amount of funding for health and social care. It is a very important area. COSLA and local government understand clearly that our role in delivering health services goes beyond the national health service. Local government has a massive role to play in that. The finance secretary

was incredibly helpful in that regard—his ear was very much open to the suggestion that additional funding be provided for social care, and I thank him for that. I also thank him for providing additional funding to introduce Frank's law and for all the other areas in social care. We are grateful for that, but the additional funding is coming at the expense of the core budget. That is the reality check.

10:00

In negotiations, when people listen and understand what our priorities are, and their priorities and our priorities meet and we can come to an agreement, that is hugely welcome, and I thank the cabinet secretary for taking that approach. However, the spending in those areas will be at the expense of something that is funded from within the core 42 per cent of the budget. That is the difficulty that local government must now balance.

**Alex Rowley (Mid Scotland and Fife) (Lab):** When professionals start talking about something being so complex that it is difficult to understand, the public shut off.

**Councillor Macgregor:** Absolutely.

**Alex Rowley:** However, the example that I would give is that the Scottish Government says that the education budget is being increased but this year parent councils in Fife are fighting against £4 million-worth of cuts to their schools. That is not complex for the parents or the pupils—they are seeing real-terms cuts taking place in their schools.

Will COSLA do work to highlight the impact of the cuts? This year, there will be about £200 million of cuts. Do you intend to do work to highlight how that is impacting on services? Has COSLA produced any work on that?

Have there been discussions about the money that will go into integration joint boards through the NHS? I understand that Derek Mackay has said that the additional money from the Westminster settlement will go directly into the NHS. Will that go into the IJBs? Is there enough transparency about how IJBs are being funded? Again, there seems to be an argument that it is so complex that people cannot understand it. Is that acceptable?

**Councillor Macgregor:** There are quite a few questions in that, and I will let Vicki Bibby pick up a few of the technical aspects.

To take the example of education funding, local councils make local decisions, particularly in relation to any budget savings in education. One big challenge that comes from the ring fencing of funding for early learning and childcare and suchlike is that we have a lot of Government

initiatives again that are outwith settlements, such as the attainment Scotland fund and the pupil equity fund. Local government does not have any overview of that money, so it cannot apply it strategically across its entire estate or its individual schools.

Although education funding may be increasing, that is because additional funding is coming from outwith the settlement over which local government has no say and which it cannot apply fairly across the piece. Again, that does not allow local government to plan. The pupil equity funding that goes into schools is controlled by the headteacher under strict regulation from Government, which does not allow the council to apply that funding in a more strategic, long-term fashion.

Although the education budget may appear to be going up, it is not necessarily in the control of local government. There is a fairly clear picture of a lot more centralisation and of a lot more local democracy and decision making being taken away. That is a problem, and we are certainly tracking and monitoring that.

At the moment, councils are developing their budgets. The majority of them are keeping that very close to their chests, so we are not really sure what areas they are looking at. However, as we go through the budget process, we will certainly start to extrapolate some of that data and see where the axe is falling.

Vicki Bibby will pick up on the questions about IJBs.

**Vicki Bibby:** I will first go back to my comment about complexity. At the purist's high level, yes, the local government budget is increasing. The complexity is that we are being asked to provide more services worth £400 million, which means that there is a £237 million cut. If we are required to deliver in 2019-20 what we are delivering in 2018-19, there will be a £237 million cut.

We welcome the fact that the money for IJBs is routed through the local government settlement. Having that transparency for local government that health, in the broader sense, is not just provided by the NHS is helpful. The complexity around that is that, in the local government circular, local government is asked to pass on that £120 million to the IJBs and maintain existing funding on health and social care at the 2018-19 level. That is what everyone wants to do, but it begs the question of where to take the £237 million cut from. If it cannot be taken from anywhere in health and social care, early years or—because of the teacher numbers commitment—education, local government will be struggling with where to account for it, on top of the significant inflationary pressures such as pay

awards that councils are wrestling with. The reality is that it is a difficult budget settlement.

**Graham Simpson (Central Scotland) (Con):** Members of the public will be completely baffled by this. They see an overall increase in the budget settlement for local government, but every council in Scotland is probably going to say that it is having to make cuts. People will be scratching their heads. Is there more of an explanation for anyone watching of why, if the budget is going up, councils have to make cuts? If we accept that there will be cuts, could you also tell us which areas are likely to face them? I am not asking you to drill down council by council, because you do not have that information, but you could spell out the areas that might be affected.

**Councillor Macgregor:** The cabinet secretary suggested that there was a £210 million increase in our budget. Factoring in the £400 million new commitments, we can say that local government is starting with a deficit of £190 million. That is fact. The public has to understand that, as an absolute base, we have a £190 million cut to the budget.

There are some fantastic initiatives that will be of benefit to the public and which will be seen as a benefit. Those will be at the cost of other things that are incredibly important to the public. As Vicki Bibby highlighted, there are areas that we simply cannot take savings from. On health and wellbeing, we know that our leisure centres, libraries and community centres provide facilities and the ability for people who are living in isolation with loneliness and potentially mental health issues to have the opportunity to socialise, integrate and have somewhere to go.

Areas that might be cut as part of the 6 per cent cut to the 42 per cent of the budget that is non-protected or non-statutory include road services, with people trying to get around day to day bumping through potholes; leisure, culture and sport, including fees for those services, which will directly impact on people, particularly people from more disadvantaged backgrounds; parks and open spaces; funding for the third sector, which delivers a massive amount of valuable support to our communities; employability support—councils along with the cabinet secretary are looking at ways to bolster our economy to create more jobs in our environment and local areas but if councils have to cut employability and skills areas, that will be more difficult to deliver; and our libraries and community centres, as libraries are statutory but it is not stated how a library service has to be delivered.

Those are the very things that people rely on day to day and have taken for granted for a long time. We are beginning to see a slight cutback in opening hours and what the services are able to deliver. The reality is that people have not noticed



till now but, with the settlement as it is, people will begin to notice. That is the reality on the ground for folk. We hope that it will never affect things such as home care—looking after granny at home. However, there are protected areas that need more investment, because we know the budgetary pressures and the demands. It is a massive balancing act.

**Graham Simpson:** Speaking as a former councillor, I think that people on the ground have probably not noticed this yet. Your argument is that we are at a point at which they will start to notice. Libraries will start to close—they have already started to. Fees and charges will go up even more. We are in a city that is a series of potholes with bits of road in between and, if the roads budget is cut, it will get even worse and people will be furious about that—do you agree?

**Councillor Macgregor:** I would entirely agree with that, yes.

**The Convener:** You mentioned libraries and home carers; you also said that libraries are a statutory service and therefore you have to keep that service. Libraries have been closing for some time and moving into local colleges and other local facilities, so there is nothing new about that. There is nothing to suggest that that is happening because of this budget or because of any previous budgets. It is a decision that local authorities seem to have made as part of a rationalisation process.

Also, when you talk about home care, do you accept that, if there are cuts to home care, it will be because the local authority decided that that is where it should make the cuts as opposed to somewhere else?

**Councillor Macgregor:** In respect of libraries, you are absolutely correct. They are a statutory service. What is not explicit is how that service should be delivered. To put it bluntly, you could deliver a book out the back of a van and that could be a library service.

**The Convener:** In some cases, that is what is happening.

**Councillor Macgregor:** Absolutely. I have been a councillor for 11 years. I have not had one budget in that 11-year period where we have not taken budget savings. There is a long-term trickle effect. We have been amalgamating libraries into customer service centres and we have had transformational change. We have had change across our entire estate to make savings and, more importantly, to make a more efficient service. We are now reaching a stage where we have done all that and we cannot do it twice. We are now having to look at a decrease in opening hours or a relaxation of particular services within a community centre or within the amalgamated service.

I made no indication that we were going to cut home care budgets. I suspect that that would be the last budget that any council in Scotland would cut. We totally understand the value of home care. The point that I was trying to make is that, along with the teaching profession, we have a recruitment and retention crisis in care at home in particular. We are very aware of that. We are aware that it holds up people from coming out of hospital and going back into their own homes. Local government and COSLA have to have a big discussion with the Government—crucially, with Ms Freeman and Mr Mackay—about how we will deliver care at home and what we can do to incentivise people into that profession, including looking at how we recruit them and how we retain them. However, that is going to come at a cost.

What we are delivering at the moment is good, but we need to do better. I think that we have about a 3.8 per cent rise in demand for social care in a £3.4 billion budget. It is a massive demand and if we do not address that with the Scottish Government, we will have a care-at-home crisis. We are looking not just at what we are doing now but at what we will do next year, in the next five years and in the next 10 years to protect the most vulnerable in our communities. There is no indication that we will ever cut home care budgets.

**The Convener:** Thank you for the clarification.

**Kenneth Gibson (Cunninghame North) (SNP):** Were the figures that you are presenting put together prior to considering a possible council tax increase of 3 per cent?

**Councillor Macgregor:** Yes.

**Kenneth Gibson:** So if council tax goes up by 3 per cent, which is likely—I imagine that a majority of councils will put it up—that will significantly reduce that gap?

**Councillor Macgregor:** Yes.

**Kenneth Gibson:** Let us accept what you have said about the real-terms reduction in local government funding over the past years. It is not the 60 per cent reduction that we have seen south of the border, but even so, it is fair to say that the reductions have been higher in local government than in the Scottish Government generally, which is what you have said. However, that is surely because the Scottish Government has prioritised the NHS. Do you believe that, in order to achieve parity in that regard, money should be shifted from the NHS or from transport or justice? Where should this additional funding that you are asking for come from? When I looked through your submission, that is one thing that seemed to be lacking. How should the Government fund this? Should it raise taxes or should the money come from other parts of the Scottish budget?

**Councillor Macgregor:** It is way above my pay grade to tell the cabinet secretary how to fund services. The reality is that Scottish Natural Heritage, the Scottish Environment Protection Agency, the NHS and suchlike have had much less of a reduction than local government. I think that local government sits at the higher end of that scale. We have possibly been an easy hit in the past. I am not going to dictate how budgets should be spent and where money should be spent, and I am certainly not going to pit local government against the NHS—they are both equally valuable.

10:15

The reality is that we need to have more flexibility in what we can raise ourselves. I appreciate the position that we are in, where the lion's share of the funding that has come from Westminster has gone to the NHS; I understand why it has. I would hope that some of that funding—through the integration joint boards—will filter down to local government, because people need to understand the role that local government plays in the delivery of health outcomes. However, crucially, the levers to raise more money locally would assist us. When the cap on council tax was put in place, inflation was sitting at only 1 per cent; it is now over 3 per cent. The council tax cap has not been helpful; it has not enabled us to raise additional funding. We do have a reality check—we know that the Government cannot give us all the funding; we appreciate that, but nor do we have the levers to do a lot locally. We perhaps need a wider reform of local taxation in general.

**Kenneth Gibson:** When you refer to “levers”, in effect you mean taxing people more locally. To be blunt, it is a cop-out for you to say, “We are hundreds of millions short, blah, blah, blah,” but not to give us any idea of how much extra the Scottish Government should give directly and where that should come from in a limited budget.

Obviously, we cannot borrow billions in the way that the Government south of the border can—we cannot have a £1.8 trillion debt—and we cannot raise money from fuel tax, alcohol duty or VAT. We have limits on how we can raise funds. If you are suggesting that we do not touch other budgets, such as the NHS and others that I have mentioned, you are saying that we must bleed the taxpayer—the ordinary householder. You have already suggested that we get rid of council tax caps, which I imagine means inflation-plus hits on people. Can you explain in more detail what those levers would raise, how they would raise it and how much people would be expected to pay?

**Councillor Macgregor:** We know that nobody wants to tax people more, and certainly not at local level. However, councils are good at consulting the people they represent and look

after. There is an acknowledgement out there that people would be willing to pay a little bit more locally if they were to see the benefit of that being spent locally. For example, the current 3 per cent rise in council tax raises around £80 million; an additional 3 per cent would take us to £160 million, which would begin to close our current deficit. Again, it would be down to individuals to make those decisions locally. It would be down to individual councils to make those decisions in consultation with the public. Some members of the public might like to see some services taken away and not pay more, but it would be done in consultation.

The fundamental point is that, whether we use it or not, we should have the ability to raise more money locally to invest in local priorities, should we choose to do so. It is not about having a *carte blanche* that says that everybody will apply a council tax rise of inflation plus 3 per cent; it is about having that ability and about the principle that local government should be able to make local choices.

**Kenneth Gibson:** If the Scottish Government were to back off and say that you have your grant settlement—that it has made its choices and, although there might be some tinkering around the edges and a few million here and there, it is not willing to change them—and that if you want more money, you will have to raise it, do you think that the Scottish Government and local authorities would be thanked for that by the people who would be expected to pay?

Are the political parties that are asking for that not the same ones that criticise teacher numbers? One of the reasons why the Scottish Government brought in the policy of maintaining teacher numbers was that teacher numbers were being significantly cut. The same parties that were in power at local authority level cutting the numbers were turning up at the Scottish Parliament to denounce the Scottish Government for the cuts, despite the fact that the local authorities were dealing with the matter.

How do you square that circle, when it comes to the Scottish Government delivering those responsibilities to local authorities, but then imposing its own policy? People will come to their MSPs and say that their council tax has doubled. Are MSPs meant to tell them that that is up to the council? How do we deliver that? We are in a situation whereby, frankly, there is not enough money to go around, and difficult decisions are being made. Even if local government were to get those additional powers, the burden on individual households would be such that there would be real unrest among the public, unless they saw a miraculous improvement in local services.

**Councillor Macgregor:** I am not here to make political comment on what individual councils do; I am representing the 32 local authorities fairly across the piece. We could turn the point round and say that councils would love to deliver the new priorities but, if those priorities and the core are not properly funded, you should tell us which services you do not want us to deliver.

There is an element of faith between the Government and local government. We are willing to deliver on new priorities—as you said, the Government is right to set them—but the restrictions on funding for them make it difficult for local government to make local decisions. The social care funding that we had last year was not ring fenced—Mr Mackay allowed it to go straight to councils and not to IJBs—and councils made decisions about using it. As I said to the convener, of course we were not going to cut social care funding and take it away from people who needed it. However, it is incredibly important to have the trust and to be able in principle to vire funding somewhere else that is deemed more important.

I turn round the point—local government wants to deliver the fantastic priorities that the Government brings to us but, if they are not fully funded and if supporting them is at the expense of something that councils think is equally important, we ask the Government which services it does not want us to deliver. We are starting to get into that territory; the budget cuts are such that we will not be able to continue to deliver some of our crucial core services or we will not be able to deliver new priorities. That would be a big break in the partnership with the Government, so I do not want it, but it is the reality.

**Kenneth Gibson:** It is easy for Governments to talk about efficiencies, but the Government can compare the 7 per cent real-terms cut in the past decade in Scotland, which you mentioned, with the 60 per cent cut south of the border and say, “Hold on a second—local authorities there have not collapsed,” although I know that some are in severe financial trouble and nobody wants such a level of cut here. The Government will look at that and say that, although it is providing additional money for important new priorities, local government will, unfortunately, have to live with a 1 or 2 per cent reduction for core services, given the financial strictures on local government and the money that is available to the Government.

**Councillor Macgregor:** I will take that as a comment rather than a question.

**The Convener:** That is what I was going to say.

**Annabelle Ewing (Cowdenbeath) (SNP):** I note that Councillor Macgregor accepted earlier that education funding is increasing and said that the issue is that there is more centralisation. How

does that square with the mechanics of the pupil equity premium, in which decision making could not be more local, because the headteacher makes the decisions, in accordance with the regulations to which you referred? That is really local: the headteacher, who knows what is going on in their school, drives the decisions. How does that equate to centralisation?

**Councillor Macgregor:** I completely understand your perspective, which I agree with, up to a point. However, councils have been devolving power to headteachers for a number of years—in part, budget savings have meant that we have had to allow our headteachers to make decisions.

The headteacher and staff in a school directly control the pupil equity funding, which is no bad thing. The difficulty comes when that sits separate from the policies and strategies that councils have for delivering education in a school or an area: additional funding might be used for staff or incentives in a school in a way that does not sit within the wider local authority long-term plan for education. In that scenario, the approach is suddenly no longer strategic, but is a sticking plaster. Use of funding might not necessarily align with the council’s priorities for health and wellbeing or good mental health, but might instead be used for an individual issue in a school.

The mechanism for reporting back is complicated, so councils do not necessarily understand what pupil equity funding is being used for in their area and how it ties in with their priorities.

The pupil equity funding is valuable, but in its third year we have reached a stage at which it supports many members of staff on permanent contracts but we do not know whether the funding will be extended beyond the end of the parliamentary session. At what point do schools have to wind down what the funding is being used for because it might not continue? The funding has good value when it is there, but it is not strategic and is not embedded within the core business of the council, so does it have longevity and absolute value, and can we guarantee it in two years? Alternatively, will such members of staff be ripped out of schools, to the detriment of children?

We have been devolving to head teachers anyway; we have given them a lot more power. If the funding had been given directly to councils, it could have been used more strategically with a better long-term plan, rather than being just a nice sticking plaster, which is how many people would see it.

**Annabelle Ewing:** I hear what you are saying, but issues would arise for long-term planning for any organisation because no budgets are certain

beyond a certain period of time. I would have thought that one solution to the problem of aligning with the strategic objectives of the local authority and so forth would be for authorities to work more closely with local headteachers and staff.

I want to pick up on some wider issues. I had understood that the share for local government of the Scottish budget is effectively the same in this year's draft budget as it was in last year's budget. Is that your view?

**Vicki Bibby:** Yes, it is, but that is only through provision of new services. That is the critical point.

**Annabelle Ewing:** Okay—but it is your view that the share is the same.

**Vicki Bibby:** If we take the offer in high-level cash terms, with the £400 million for additional services that we have to provide, the share is the same. However, if we look at it as a like-for-like core budget, it has reduced.

**Annabelle Ewing:** Yes—except that, as we have already heard, the core budget includes what the core budget includes. Those are all the things that we have discussed—social care, early learning and so forth. I do not want to reopen that debate.

Kenneth Gibson alluded to the subject of my next question. The Scottish budget is still predominantly governed by the Barnett formula. We have a position in Scotland in terms of the local government settlement, and we can look at what is happening south of the border. Kenneth Gibson referred to cuts of 60 per cent south of the border, but the Local Government Association cites the figure for reductions in central Government funding to local government in England as being 77 per cent from 2015-16 to 2019-20. I assume that COSLA is not seeking a settlement of the kind that is being offered to local authorities south of the border, which is 77 per cent in cuts since 2015-16.

**Councillor Macgregor:** No—and it is evident that councils are collapsing in England and Wales. We would absolutely not want that level of cuts to Scottish budgets.

**Annabelle Ewing:** A 2 per cent increase in overall funding from the centre to local government here is quite remarkable in the context of what is happening south of the border, notwithstanding the financial constraints on our raising income in Scotland.

**Councillor Macgregor:** I am no expert on councils in England and Wales, but I know that they have very different structures and systems to those in Scotland. They have an awful lot more local control and ability to raise income locally. I think that we are comparing apples with pears, but I understand your principle. I am not going to do

the south of the border versus north of the border—

**Annabelle Ewing:** I am sorry to interrupt, but any comparison might not be between things that exactly match. However, it is fair, as members of the public would accept, to compare the position in England, where there will have been a 77 per cent reduction in funding between the end of 2015-16 and the end of 2020, with the position in Scotland, where we have found an overall real-terms increase of 2 per cent. That is a broad-brush comparison that members of the public will get. Notwithstanding the difficulties that are facing local authorities in Scotland, that is quite a stark contrast, if not a direct comparison.

**Vicki Bibby:** The situation in England is very different. I do not think that anyone in Scottish local government or the Scottish Government would want to replicate what has happened in a number of councils in England. I am thankful that in Scotland we have taken a quite different approach. We have co-signed the national performance framework and we are prioritising inclusive growth.

We want to avoid the stripping back of councils. It is true that the councils down south have moved to having much greater powers over non-domestic rates and local taxation. We would like to explore the benefits of that approach, which would involve moving the dynamic towards more local fiscal empowerment. However, we have a shared agreement with the Scottish Government that, for the benefit of all our communities, we do not want what has happened in England to be replicated in Scotland.

10:30

**Andy Wightman (Lothian) (Green):** Thank you for coming to our meeting.

The letter about the local government finance settlement that was sent to chief executives and directors of finance on 17 December says:

"The provisional total funding allocations form the basis for the annual consultation between the Scottish Government and COSLA ahead of the Local Government Finance (Scotland) Order 2019 being presented to the Scottish Parliament".

Paragraph 4 says that

"The terms of this settlement have been negotiated through COSLA on behalf of all 32 of its member councils."

What does that mean?

**Vicki Bibby:** Are you referring to the circular?

**Andy Wightman:** I am referring to the draft finance circular of 17 December—circular 8/2018.

**Councillor Macgregor:** I suppose that the terms have been "negotiated"; they have not been

agreed. There is a difference between the two. We have been involved in negotiations, on which I lead on behalf of the 32 local authorities.

**Vicki Bibby:** We have not agreed to the settlement.

**Councillor Macgregor:** No—we have not agreed to it.

As you know, the difficulty with the budget process when there is a minority Government is that I go so far with the Government, then other wheels start in motion. That makes it very difficult for local government. We have been in negotiation on behalf of the 32 local authorities, but there is more work to be done as part of the new year budget process.

**Andy Wightman:** The circular says that

“The terms of this settlement have been negotiated through COSLA”.

That implies that COSLA has agreed the settlement. What does that sentence really mean? What is the difference between your understanding of the outcome of those negotiations and what the circular says?

**Councillor Macgregor:** Are you playing semantics with me?

**Vicki Bibby:** COSLA does not agree the wording of the circulars. COSLA leaders have not agreed the local government settlement.

**Andy Wightman:** Okay; we will leave that there.

Paragraph 5 of the circular lists all the conditions to which all 32 councils must agree in order to get the full £11.1 billion funding package that is talked about. In years gone by, COSLA has agreed to such conditions on behalf of the 32 councils. In paragraphs 21 to 24 of your submission, you talk about a reducing amount of core funding and that there is more centralisation. You say:

“the element of the local government revenue settlement over which local authorities have control ... reduced from 98% to 88%”.

In other words, central Government says, “Here’s the money, but you’ve got to do this with it.” That is reflected in paragraph 5 of the finance circular. Have there been any discussions about whether you will accept the conditions?

**Councillor Macgregor:** It will be down to individual councils to make that decision; it is not down to COSLA to make an overarching decision.

**Andy Wightman:** Have there been any discussions within COSLA about whether councils will accept the conditions?

**Councillor Macgregor:** Not yet. That meeting will be held on 25 January.

**Andy Wightman:** Okay.

I want to look at the long-term outlook. You say that councils have not yet set their budgets and that you have not had sight of their budgets. However, they have publicly stated what sort of savings they are looking to make. Consultations are under way and the public have been involved in discussions about a 3 per cent cut or whatever.

What is your understanding of the difference between the projections that we have had and the reality of what has come forward in the draft budget?

**Councillor Macgregor:** I think that the situation on the ground is worse than people would expect. The initial feeling was that the draft budget was not a great budget, but at that point there was no understanding of the implications. The reality is that, when councils factor in pay inflation, demand pressure and other things that should be factored into any budget, and must make savings on top of that, the situation is looking quite dark for many councils, especially those that do not have significant reserves. That position is not going to change at this time, so councils have very difficult decisions to make.

At the beginning of the process, in mid-December, many councils were looking at a reduced settlement—up to 6 per cent coming out of certain areas of the budget. Councils are in a very difficult position and councillors have very hard decisions to make.

That is another reason why national priorities and Government priorities cause problems for local councils, as the committee is aware. The current programme for Government provides for additional funding for school counsellors and school nurses. There is also a big discussion at the moment about musical instrument instruction. Those are all very valuable services, but councils have, in the past few years, had to make really tough decisions to take out such services in order to protect teacher numbers, for example.

We have very difficult decisions ahead, because national policies on services such as school counsellors are coming back to local councils that have already taken counsellors out of schools. The centralisation agenda is very difficult for local councils. Ideally, councils should be given a reasonable settlement with additional funding for new priorities, and be allowed to deliver what is essential in our local areas without too much intervention.

**Andy Wightman:** Members of the public, including Councillor Macgregor’s constituents and my constituents, want clarity about how much

money is available, what it is spent on and who is accountable for the decisions. In earlier conversations, we talked about the extension of free provision of early learning and childcare to 1,140 hours, and about how the extension above the current base of 600 hours is fully funded, but the funding for the 600 hours comes out of the councils' core budgets, which are being cut.

For the sake of argument, if the 600 hours were cut to 500 hours—so that the extension would be not to 1,140 hours but to only 1,040 hours—who would be responsible for that decision? If a constituent were to come to me to complain that the 1,140 hours were not being delivered as the Government had promised, I would have a legitimate grievance to make as I hold the Government to account.

However, for the constituent who goes to the council and says that they have been told that the council has the money to provide the 1,140 hours, is there not a fundamental problem about accountability for that money? Irrespective of the sums, it seems to me that the public deserves clarity on who is responsible for making funding decisions and funding commitments. In that context, would you welcome a fiscal framework that set out the rules about local government funding more clearly, so that we could be very sure about who is responsible for what and who should be held accountable for decisions about funding?

**Councillor Macgregor:** Yes—absolutely. That would be an ideal long-term goal. I think that it would be essential. Early learning and childcare is a very good example of partnership working between the Scottish Government and local government. In partnership, we put together the framework for how it would be delivered and expanded, and the funding package. I think that it was fairly unique in its formation. It was ground breaking and should pave the way for how we manage other Government priorities that are introduced, which must be done in partnership and in conjunction with local authorities.

You are right that when it comes to the grass-roots delivery of the service, the buck stops with the council, because it is the face of delivery of the service that provides for a child to go to nursery for X hours per week. There needs to be a greater understanding that, if the service is not fully funded, or if its being fully funded has consequences elsewhere, responsibility for that lies with the Government. However, as Mr Wightman said, invariably the parent will come to the council's director of education and ask why their child is not getting what was promised. A much more transparent fiscal process and framework would absolutely be welcome. Vicki

Bibby may have more to add, because that is one of her aspirations.

**Vicki Bibby:** We have asked to do some cross-party work on getting greater transparency around the local government settlement, and to get it on a more sustainable footing. We have had annual budgets over the past few years, based purely on what the Scottish Government gives local government, and there is flexibility of only 3 per cent on the council tax, with the cap.

Annemarie O'Donnell will be able to describe what that means on the ground.

**Annemarie O'Donnell (Society of Local Authority Chief Executives and Senior Managers Scotland):** Generally, and specifically in early learning and childcare, there is a difference between what is fully funded by the Scottish Government and what is fully funded by local government, which is linked to the requirement to which all 32 councils are committed, of delivering 1,140 hours in the timescale that has been set in discussion with the Government.

Members who have been councillors will forgive me for explaining. On allocation of spend and budgets, councils, as businesses, make financial forecasts. We have annual budget settlements from the Government that provide our core budgets, but we all have additional pressures that are, increasingly, linked to pay awards after the pay freeze and pay cap that we had for a number of years. That is now high risk for councils, because we need commercial salaries that attract and retain staff. Across local government, we are seeing a number of experienced staff being poached by the private, third and academic sectors. We need to make sure that we stay viable as an employer.

The budget process starts in April each year. We look at our budgets and at our financial forecast of what the budget might be, with the additional pressures. We speak to our business units and directors to identify potential savings that they should look for within their budgets.

In Glasgow City Council, education had a £20 million savings allocation, or up to 5 per cent. In social work, it was £19 million. With potential ring-fencing of those budgets, we now have to look to other parts of the council's services to identify how to balance the books. We have no alternative—we must balance the books within the budget that is available to us.

**Andy Wightman:** On early years provision, you must deliver the 1,140 hours, within which the existing 600 will have to be delivered, and that will require cuts in the core budget for other services, such as libraries and community centres.

On pay—this is tangential to the budget—the committee has had representations from the Equalities and Human Rights Committee in response to a letter that it received from Linda Fabiani MSP about equal pay claims. I do not want to get into Glasgow City Council's particular case, but it has a lot of experience on the matter. Some claims are being settled by local authorities through compensation payments, and some through back pay. The mechanism that is used has a significant impact on, for example, pension entitlement. Is COSLA sighted on those issues, and is any cross-council work being done to ensure that people who are entitled to historical equal pay are being treated equally and fairly in the settlements that are arrived at?

**Annemarie O'Donnell:** I will not talk specifically about Glasgow. I understand from colleagues across local government that settlements are made through local negotiations with the trade unions and claimants' representatives, if they have private firms involved. There has been some discussion about pension allocation and provision.

From the Glasgow perspective, we are in discussions to negotiate a settlement on equal pay claims. The two key things that we have to look at, in relation to which we are discussing with Her Majesty's Revenue & Customs and our pension fund the instructions and guidance that they will give us, are the allocation of tax and pension costs to compensation settlements.

There has been the potential for confusion around the words "compensation" and "pay". People use "compensation" as short-hand, but the compensation is made up of a number of factors including interest, what would be classed as compensation in a court action, and pay. Currently, in negotiations with HMRC and our pension fund, tax and pension payments will be deducted from the payments before they are made to the claimants.

10:45

**Andy Wightman:** That is helpful. Thank you.

I will go back to ring fencing and protected expenditure. Gail Macgregor said that councils have discretion over 42 per cent of their budgets and that the rest is ring fenced or protected under the terms on which the Government gives local government the settlement: in other words, the Government says that you will not get the funding unless you do X.

For transparency, would it be better to say explicitly and frankly that such funds are ring fenced? Local authorities are the delivery vehicle, but the funds are ring fenced by the Scottish Government. In the same way, the United Kingdom Government gives the Scottish

Government money but says, "This is for X—you have no discretion over it." The Scottish Government agrees to spend that money, but it is clearly UK money that the Scottish Government spends. That approach helps with accountability.

In effect, are we going back to there being a substantial amount of ring fencing? Would it be more honest to call it ring fencing, so that we are clear about who is responsible for it?

**Councillor Macgregor:** We call it ring fencing, and it has increased significantly in the past few years. Back in 2011-12, only 2 per cent of spend was in ring-fenced pots, but the amount of initiative funding has now been lifted to about 12 per cent. There has been a significant shift in initiative funding, ring-fenced funding or whatever we wish to call it.

As I said, an awful lot of what the Government proposes is incredibly valuable; we can sign up to it in partnership and we are happy to deliver it. However, as you said, the difficulty is that money that is absolutely ring fenced can be spent on nothing else, which does not necessarily reflect what is required locally and it takes away local decision making.

We are signed up to and happy with an awful lot of initiatives—early learning and childcare is a prime example. However, other initiatives that we must deliver with ring-fenced funding have not been particularly developed in consultation with local government. We must get better at that; we are getting better, but we need much more active discussion before big headline announcements are made in Parliament that money will be given to a policy. We need much more discussion between local government and the Government beforehand about whether an initiative will be good, whether it will work locally and how we can make it work locally. Initiatives must also be fully funded and not just funded as a headline at the expense of something else, as I said.

We know that some ring fencing is required. Incredibly important initiatives can come up throughout the year that require £2 million or £3 million here or there, and we understand that such money will be provided. Councils do the same thing—throughout the year, they will commit money to initiative X, Y or Z.

As you said, it is important for transparency that people understand that ring-fenced funds can be spent only on specified initiatives, so if a budget saving is required, that will come at the expense of another service.

**Andy Wightman:** You do not describe education funding as ring fenced—you call it a statutory service—but, in effect, it is ring fenced, because you have no choice but to deliver

education. Are there four categories: discretionary, ring-fenced, protected and statutory spending?

**Councillor Macgregor:** There is also non-protected funding, so there are five categories.

**Andy Wightman:** Nowhere are those figures presented in a budget document or anything that COSLA has provided. The committee has been keen on more transparency, which means taking the same numbers and presenting them in different ways so that we can understand their impact. Table 6.14 in the draft budget draws together explicitly the funding from other portfolios—health, justice, transport or whatever—that local authorities will spend. That is helpful for transparency.

Would it also help, on allocating funding to categories, to indicate the flexibility or constraints on you in spending it? I am sure that you could produce those numbers if you wanted to. I am talking about transparency all round—in the Government's draft budget and in the figures that you produce.

**Vicki Bibby:** Statutory services are complicated—I might not make them a category, because a lot of what we do is statutory. There is local flexibility in how statutory obligations are met. For example, collecting refuse is a statutory requirement, but how often it is done has changed.

For a number of years, we have been trying to separate statutory provision from areas in which there is flexibility. There has been no issue taken with the statutory requirements when we had a focus on outcomes, and local government very much welcomed the move to that position. We have a statutory requirement to provide education, but with that come input measures, including teacher numbers and the need to spend a certain amount on pupil equity funding. We have moved away quite considerably from the good place that we were in—where we focused on the outcomes—and back towards input measures.

There is an issue with statutory provision when the focus is on performance being related to input measures as opposed to outcomes, which is what we are trying to focus on through the national performance framework. We are operating two systems in parallel. We are talking about outcomes in the NPF, but at the same time we have input measures.

**Andy Wightman:** That is an important point, because you make the point in your submission—or elsewhere—that you want to focus on outcomes. You say that there has been a drift away from that. How has that drift happened? I thought that that was all signed up to and agreed on.

**Vicki Bibby:** It was agreed on some time ago. With budget pressures and new commitments, there is the challenge that we have talked about as part of budget scrutiny for a number of years: how do we monitor outcomes? We need to get better at monitoring outcomes because in the absence of that, understandably, people want to know what we are doing.

There is an accountability aspect and the easiest model to move to for accountability is one that looks at inputs. However, just because we spend more, is the service any better? If we have more teachers in a school, does that mean that it is better for the children? What we have seen is that, because of budget pressures, if teacher numbers go up, other aspects can be affected, such as additional support needs.

COSLA has not been supportive of the narrow focus on input measures; it should be about the wider system and the focus should be on the outcomes. We have been talking about that for some time.

**Annemarie O'Donnell:** I assure the committee that locally, local government is working with all its community planning partners—the third sector, housing associations and other agencies—on outcome-driven initiatives. A reduction in youth crime does not happen by itself; it happens by working closely with the police, the third sector and charitable organisations. That in turn has a direct positive impact on health and justice.

I reassure the committee that we are focusing on outcomes. Our community plans—our strategic plans that are agreed by each of our councils—are outcome-focused and we monitor those plans based on the outcomes. We need more flexibility on how we apply the resources that we and our partner agencies have, so that we can continue to drive that effort into outcome-driven initiatives, which clearly have a direct impact on society.

**Alexander Stewart (Mid Scotland and Fife) (Con):** We have heard various views this morning about the funding process and how budgets can be called by different names, which has created some confusion.

I spent time as a councillor and, as far as I can see, the reality on the ground is that there has been a 3, 5 or even 6 or 7 per cent increase in charges across some councils in the past year or two. All councils have made efficiency savings, all councils have reduced their workforce, and some councils have had to balance the books by going into their reserves. Those are the facts about where we are at present, before we look at the implications of this new budget process.

The cumulative impact of all that means that the pressures on local government can no longer be managed by local government itself. There is



nothing that you can mitigate further to ensure that you can get the result that you want, which is to provide facilities and services for your communities.

**Councillor Macgregor:** Yes—I agree with that. One of the difficulties is that fees and charges are a means of creating income for councils, but they tend to be in areas that affect the most vulnerable people in our communities and those who need those services more than most.

Alexander Stewart cited increases of 3 to 5 per cent. I think that charges for burial lairs have gone up by up to 20 per cent across Scotland as a means of plugging the gap. Such things are what I mean when I talk about the unintended consequences of new priorities, which are funded at the expense of something else, and the hard decisions that councils have to make.

The reality is that one-year budgets are difficult, because they do not allow for long-term planning. Efficiencies can come from longer-term planning; we can spend to save—so although there is an up-front cost, efficiencies can be found over the longer term—as opposed to working hand to mouth, year on year.

I appreciate that the Scottish Government is not in a different situation: if the UK Government were to have a slightly longer-term financial strategy, that would be useful to the Scottish Government and, in turn, local government, because short-termism is a huge problem. Although we can make projections, we cannot think three, five or 10 years ahead, because we do not have certainty. Pay is the prime example. I am in the process of negotiating a multiyear pay deal, but I have no idea what budget we are going to get in 2021-22. That is a massive issue.

We have concerns about funding for integration joint boards. We know that money is not being transferred from acute care to preventative care and early intervention. That is an area that we need to focus on. Things can be done to improve the outlook for local government—I am not all “woe is me” and doom and gloom and we are positive about what we can do to improve our situation—but they have to be done in partnership with the NHS, IJBs, Government and departmental agencies.

A massive piece of work is needed to improve the situation for local government, and it is not guaranteed that that will happen. For example, the NHS has had an indication that it will have three-year projected funding and be able to work within a 1 per cent window. That would be lovely for local government. If we could work towards two or three-year budgets in the longer term, that would be fantastic and would help. It would not take away the fact that, in this period, local councils

may have to look to putting up fees and charges for junior swimming or hire of pitches. The list is endless. We are reaching a tipping point at which the fees and charges will prevent people from using the service. Any decision has to be balanced.

**Alexander Stewart:** You indicated that councils are trying to attract personnel for the future. Local government is going to continue; organisations and structures are there. There needs to be a projection for the short and medium term so that you can attract individuals to come in to the sector and manage it on behalf of the communities that it represents. We as politicians can add to the mix, but the core staff need to be there.

It has been difficult to attract staff, and some councils have looked at golden hellos to encourage individuals into various sectors. Councils have had to re-advertise posts across the piece. All that is creating uncertainty for the sector, because of the funding and because of the anxiety that has been created by the prospect of continual cuts to facilities.

**Annemarie O'Donnell:** That is a valid point. All chief executives across the 32 local authorities have workforce planning as a key risk in their authorities. We forecast where the risks are and where demand is increasing. We are all looking at redeployment initiatives. With the early years increase, we are looking to offer redeployment to our staff and to staff across our community planning partners and local government areas to retrain as child development officers. That has been successful.

In the current economy, we know that people will move into portfolio employment. Understanding that and what our young people are looking for in terms of career and rewards helps us to create an employment model that is attractive so that people join us and stay with us. We must also look at our training and development programmes. That comes as an essential cost, because, if we do not have those things in place, the risk is that we will lose experienced and high-quality staff.

**Alexander Stewart:** Finally, I want to ask about how councillors evaluate the impact of budget reductions when it comes to particularly vulnerable groups in a community who might be impacted, including by increased charges and fees. That has massive implications for individuals who are in a vulnerable situation.

**Annemarie O'Donnell:** There are a number of aspects to that. Often it is easy to say that we should just increase a charge or fee, but that can be a false economy. Participation declines, and local authorities are still left with the cost of the service and the people who run it.

Every option that we look at has to go through an equality impact assessment, which includes looking at protected characteristics and ability to pay. More and more, we are understanding the direct and indirect consequences of a fee increase or service reduction for other parts of the public sector, because there could be cost shunting to other areas. We need to understand the direct and potentially indirect consequences and how we can mitigate them.

11:00

**The Convener:** Alex Rowley is next, to be followed by Kenneth Gibson and Graham Simpson.

**Alex Rowley:** I have a couple of questions, convener.

**The Convener:** Can we keep it short now, please?

**Alex Rowley:** You have talked about the core budget and the £2.37 million cut. What have you factored in for pay awards? I noticed that yesterday's teachers' pay negotiations did not make the progress that some were hoping for. Is it your assumption that, if there is a settlement on teachers' pay, it will be met by the Scottish Government? Other trade unions have said that they might come looking for more on the basis of the outcome of those negotiations. What assumptions have been made around pay? Specifically on teachers, is the assumption that the Scottish Government will fully fund that settlement?

**Councillor Macgregor:** I will put my other hat on—I am also the employer's lead for COSLA, so I am negotiating with all the unions, particularly the Educational Institute of Scotland.

The lifting of the public sector pay cap last year obviously raised aspirations for our workforce—there is no question about that—and COSLA mirrored Mr Mackay's policy in good faith. We felt that, if people in the public sector were being offered the policy that he put forward, it was fair to mirror that and add that value to our workforce.

I am nine months into those negotiations; I will not go into the specifics of them. Local councils will forecast pay within their budgets going forward and they will put a percentage in. Not all of them will put in 3 per cent, which is what we were offering in the end. Some will have a shortfall because they put in 1 per cent or 2 per cent. There is always pay pressure, and pay is budgeted into future budgets. The pressure is not horrendous, but where we are having to get to in order to get the deals over the table will really stretch local government. The commitment to a three-year deal is a big commitment. At the moment, we are

looking at almost £380 million just to cover this year's pay rise, if it is agreed.

In respect of the teacher pay negotiations, the offer from COSLA is similar to that of other bargaining group. Any additionality would come as a policy intervention from the Scottish Government and, we hope, would be fully funded by the Scottish Government. More important is that, because the deal is a multiyear deal, we would require it to be fully funded because there will be knock-on costs for teachers and all of our workforce. We also have a big pension cost coming over the hill in April this year.

There is massive pressure because of pay, but we value our workforce. We have had a period of austerity and there is no question but that they deserve a pay rise. It is just a matter of achieving it within our means.

**Alex Rowley:** Fife Council has said that, in order to meet the cut that it faces, it would have to increase council tax by 11 per cent. Has the finance secretary made it clear that there is a cap of 3 per cent this year and that any local authority that puts its council tax up by more than 3 per cent will incur penalties? Is that your understanding?

**Councillor Macgregor:** Yes.

**The Convener:** We have been talking about raising local taxation and so on. What are your views on the tourist tax?

**Councillor Macgregor:** COSLA has lobbied hard on that in recent months. Last July, we launched a campaign for the transient visitor levy. COSLA's view is that it is not for plugging the gap caused by budget cuts. If it is going to work in local areas, it should be applied to bring in additional income to cover the pressures that tourism creates within those areas. It is certainly not a stopgap for budget cuts.

It will be down to individual local authorities to see whether the tax would work for their areas—whether it would have value and bring in income to cover the cost of tourism and its associated costs. The principle is that local government should be given discretion to raise money locally if the conditions suit.

**Kenneth Gibson:** Believe it or not, I was a member of the Local Government Committee in 1999. One of the issues that it wrestled with was the issue of the then Scottish Executive not fully funding what were called additional burdens for local authorities—we might want to call them additional responsibilities. When it comes to the relationship between local government and the Scottish Parliament, the more things change, the more they stay the same.

Ring fencing is a serious issue. When the Scottish Government came in in 2007, more than

60 funding streams were ring fenced. The concordat of November 2007 abolished those, but as you have pointed out, they have started to creep back in. What the Scottish Government has said—I remember asking Mr Swinney about this when he was the finance secretary—is that ring fencing has come back because, even though additional money was allocated to local authorities specifically for additional teachers, free personal care and police numbers, which were issues at the time, they were spending that money on other things. The Scottish Government felt that the partnership was not being fulfilled from the local government side, so it said to councils, “We will give you the money only if you spend it on that.” Trust is a wee bit of an issue. It seems that the relationship has broken down. How can it be rebuilt?

Since 1999, I have always taken the view—under the Labour-Liberal Executive and under the Scottish National Party Government—that any additional burdens or responsibilities should be fully funded. If a local authority is given additional money for a particular thing, it should be spent on that thing and should not impact on the core budget.

**Councillor Macgregor:** I agree entirely with that synopsis. There was a breakdown of trust and faith between local government and the Scottish Government over a period of time. You asked what we will do in the future to improve the situation. We are already improving it—we have been doing that over the past year and a half, since the new presidential team and the new spokespeople came in at COSLA. We now have much closer partnership working, and there is much more liaison between the Government and local government. Ministers, the spokespeople and the associated boards in COSLA have a much better, more proactive attitude towards working in partnership. It is very much the start of a journey, but that trust is beginning to be rebuilt, and things such as the national performance framework will guide that. The negotiations on early learning and childcare are a prime example of good partnership working between the Government and local government.

The concessions that Mr Mackay made in last year’s budget to do with the lifting of ring fencing and the viring of some of the social care funding directly to councils instead of its being put through the integration joint boards represented a huge leap of faith on his part. He took that measure and we have not abused it—trust works both ways. We must continue to build on that. As our president continually says, we should have spheres of government rather than tiers of government. If we can work more proactively and closely with the Government and build trust, that will deliver better outcomes for everybody.

Ring fencing is a difficult issue. When I was first elected, in 2007, all the ring fencing was being lifted, which was fantastic. We were all happy. Suddenly, we have found ourselves in the position that—between ring fencing and funding for statutory services—we cannot touch 58 per cent of our budget. Ring fencing exists, and the only way in which we can start to break it down is by developing policies more closely with the Government in the first instance and ensuring that the money goes where it should go, up to a point—obviously, there needs to be an element of local discretion. I am sorry, but we know our areas better than the Government does.

**Graham Simpson:** I have a quick question for Councillor Macgregor about council tax. Right at the start of your evidence, you said that councils had been constrained by the freeze. The implication is that they are no longer constrained, although there is a cap on the extent to which they can increase council tax. First, is it your position that any increase in council tax should not be used to plug funding gaps? Secondly, if every council increased council tax by 3 per cent, would every council still have a funding gap?

**Councillor Macgregor:** The answers are yes and yes. The 3 per cent cap on council tax increases takes away local autonomy, although I do not suggest that any council would put up its council tax by 11 per cent if it came to that, because we are very aware that people will be judged at the ballot box. Local discretion should be available to raise council tax to a level that would assist not in plugging the gap—it should not be used for that—but in supporting other initiatives. However, if we are in dire times and we need to have a reality check, there is no question but that council tax increases will be useful in assisting us to continue to deliver core services.

Increasing council tax by the 3 per cent cap would create £80 million of additional income for the 32 councils, but it would go nowhere close to offsetting the budget cut—we would probably need to increase council tax by 9 per cent to do that, which no council would do, as I said.

**Graham Simpson:** Is every council in that position?

**Councillor Macgregor:** Yes—I think so.

**The Convener:** That ends our questions. I thank the witnesses very much for their helpful evidence.

I suspend the meeting briefly to allow the witnesses to change over.

11:11

*Meeting suspended.*

11:16

*On resuming—*

**The Convener:** For our next evidence session on the Scottish Government's budget for 2019-20 I welcome Derek Mackay, the Cabinet Secretary for Finance, Economy and Fair Work, and Aileen Campbell, the Cabinet Secretary for Communities and Local Government.

This is Aileen Campbell's first appearance before the committee in your new position. We wish you well.

**The Cabinet Secretary for Communities and Local Government (Aileen Campbell):** It is. I hope it will be a nice experience.

**The Convener:** There are no promises, but it is nice to see you start off in such a positive vein.

**Aileen Campbell:** I appreciate your optimism, convener.

**Kenneth Gibson:** Just give us the money and there will be no bother.

**The Convener:** Okay; let us get back to business.

The cabinet secretaries are supported by, from the Scottish Government, Graham Owenson, the head of local government finance; Robin Haynes, the head of local taxation; Caroline Dicks, an investment manager in the more homes division; and Angela O'Brien, a team leader in the better homes division.

During 2018, the committee undertook pre-budget scrutiny work on workforce planning in local government, housing adaptations and, more generally, the suitability of affordable housing stock for older and disabled people. Following that work, we wrote to the Scottish Government with recommendations for consideration in advance of the budget being finalised.

We have now received a response to that correspondence; it is included in our papers. We have the opportunity today to discuss the response as part of our wider scrutiny of the Scottish budget for 2019-20.

I invite Mr Mackay and Ms Campbell to each make a brief opening statement before we move to questions from members.

**The Cabinet Secretary for Finance, Economy and Fair Work (Derek Mackay):** Thank you, convener. I welcome the opportunity to discuss the Government's spending priorities with you and to hear the views of the committee.

As I made clear to Parliament, the 2019-20 budget is being delivered under the most challenging of circumstances. If the budget consequential for investment in the national health service are excluded, this year's block grant will be £340 million, or 1.3 per cent, less in real terms than it was last year. Despite that, the Scottish Government is providing local government with a real-terms increase in revenue and capital funding to invest in our public services and in delivering our joint priority of sustainable and inclusive economic growth.

Local authorities are our key partners in delivering the vital services that the people of Scotland expect and deserve, which is why I have treated local government very fairly in providing a total settlement of more than £11.1 billion. Within that total, I have increased its resource budget by £197.5 million and its capital budget by £207 million, which will result in a total increase in local authority core funding of £405 million. That is a real-terms increase of 2 per cent.

The funding package includes an additional £210 million to deliver on our commitment to the expansion of early learning and childcare entitlement and £160 million for investment in social care. This is real funding to support real day-to-day core services. To exclude it is to present a distorted picture of the resources that are available to local councils.

Local authorities also have the flexibility to increase their council tax by 3 per cent, potentially raising an additional £80 million and securing a real-terms increase of 2.7 per cent, or £485.1 million, in local government spending on services again next year.

**Aileen Campbell:** Like Mr Mackay, I welcome the chance to be here. Despite the tough public expenditure conditions driven by the UK Government, we have managed to secure significant investment for the communities and local government portfolio so that we can maintain our focus on creating a fairer Scotland, ensure provision of accessible, affordable, energy-efficient housing and promote community empowerment and inclusive growth.

The budget shows increased investment to support the delivery of 50,000 affordable homes over the five years of this session of Parliament, with the total spend on more homes increasing by 9 per cent to £789 million in 2019-20.

All of the £574 million more homes capital funding will be directly invested in the affordable housing supply programme, chiefly for social housing. Together with the £112 million budget for the transfer of management of development funding, which sits in the local government budget

line, the total capital investment for affordable homes will be £686 million.

We have also allocated £141 million of financial transactions to the affordable homes programme, which means that the total budget for affordable housing in 2019-20 will be £826 million—an increase of £70 million on last year.

We are also maintaining our commitment to reducing overall energy costs for Scottish consumers by improving energy efficiency in homes where we can, addressing fuel poverty inequality and dealing with the challenges of climate change. With an extra £116 million allocated to tackle fuel poverty and energy efficiency in 2019-20, we have allocated over £1 billion in the area since 2009.

I put on record my thanks to the committee for raising the housing needs of older and disabled people in its pre-budget scrutiny, with a particular focus on adaptations and funding for registered social landlords. I am pleased that I have been able to maintain the budget for that at £10 million for 2019-20, championing independent living for older and disabled people in their own homes.

We are also continuing to invest in supporting measures to tackle poverty and build a fairer and more equal society. To do that, we will continue to strive to reduce child poverty levels, backed up by the £50 million tackling child poverty fund. We will also do more to tackle food insecurity experienced by families during the school holidays, and we will expand access to free sanitary products.

We will invest £10 million in 2019-20 of the £50 million ending homelessness together fund, as we implement the commitments made in the action plan we published in November, and we will provide £23.5 million to local authorities to support the provision of temporary accommodation.

The role that the third sector can play in helping to reduce inequality cannot be underestimated, and we continue to provide financial support to enable it to work with communities to tackle tough social issues at source.

I recognise the value of investing in regeneration activity to stimulate inclusive growth and to empower and improve the wellbeing of people and communities. The empowering communities fund helps to develop strong and resilient communities, providing investment to enable communities to develop local plans and proposals, prioritise budgets and develop local assets, services and projects.

Overall, this budget continues to provide significant investment to meet our commitments in creating a fairer society, providing opportunities for our most vulnerable citizens, supporting regeneration and empowering our communities.

**The Convener:** Thank you for those opening statements. I have a question for Derek Mackay. You talked about it being a good deal for local government, but COSLA did not quite agree with that. You talked about fairness; COSLA suggested that local government is treated less fairly than other areas, even if we excluded health. Could you respond to that?

**Derek Mackay:** I disagree with that analysis. For as long as I have been finance secretary, each year, local government has enjoyed a real-terms increase in the resources that are proposed by the Scottish Government. If we take this financial year, the UK Government said that austerity would come to an end, but it has not ended. We have said that we will pass on the Barnett consequential for the NHS, so if we exclude that element—I think that it is reasonable to do so—we can see that if I had simply replicated what is in the UK Government budget, there would have been a real-terms reduction to local government funding. That is not what local government is facing; rather, the local government settlement is a real-terms increase in resource and capital.

In this continuation of UK austerity, that is a fair deal for local government. The settlement that I have from the UK Government, excluding Barnett consequential specifically for health, would have meant a real-terms reduction to resources. What I am proposing for local government is a real-terms increase in the resources at its disposal because of the choices that the Scottish Government is proposing and the other levers that we are using.

Recognising that the NHS is indeed a priority for this Scottish Government, we set out manifesto commitments about passing on Barnett consequential, and we are doing that. I think that we have treated local government very fairly.

I say again that, as finance secretary, this is the third budget that I have proposed to the Scottish Parliament in which I am proposing a further real-terms increase to local government in a very challenging economic and fiscal climate. That is why I would describe it as fair. Of course, I would expect COSLA to argue for more—I think that I did the same when I was part of COSLA and a local authority leader, and I know that I am not the only former local authority councillor at the committee meeting this morning. Of course, local government will, quite rightly, argue for more. I am not underestimating the challenge that local government faces with fiscal and other pressures on public services, but with regard to the resources and the choices that are available, I think that this is a very fair settlement.

If other parties wish me to do something different, it is up to them to say what their different priorities would be. If they wish to change the local government settlement, what else would they do

around taxation? Would they reduce budgets elsewhere? In that context, the settlement is very fair to local government.

**The Convener:** Thank you for that short response.

**Derek Mackay:** I could go on.

**The Convener:** I am sure that you could.

If we take out health, where does local government sit in relation to the level of increase? It has been suggested that it is not the next priority.

**Derek Mackay:** In the period since 2010, the Tories have been in office, we have had spending reviews and there has been a £2 billion real-terms reduction in resource for the Scottish budget. I welcome the health uplift—and I have done so publicly—but if we exclude it for the purpose of understanding the impact on every other portfolio within the expenditure in the Scottish budget, the UK budget would result in a real-terms reduction. However, we are proposing a real-terms increase.

In respect of share of the budget, the Scottish Government is making choices to invest in our public services, which means real-terms growth in, for example, education and local government budgets. Within that, we are making choices to try to provide stability for the country, sustainability for our public services and an economic stimulus to give us positive sustainable economic growth. Local government's share of the budget, as proposed for financial year 2019-20, remains about the same as last year's share, at around 27 per cent.

I watched as much of the earlier evidence from COSLA as I could. On capital, some of the specific elements of what we are choosing to fund must surely be welcomed. I am referring to what the Scottish Government is doing, but local authorities have the ability, unlike other portfolios, to raise revenue through local taxation. The settlement therefore has to be set in the context of what other portfolios and Government departments cannot do that local government can.

The starting position is a real-terms increase, as I have described. Within that, there are specific commitments to be met and I have discussed them with local government. They will not be a surprise to Parliament, because Parliament asked us to do many of the things that I am proposing, whether it is free personal care or the expansion of the free provision of early learning and childcare. The expectation is that those commitments, many of which were requested by parties across the Parliament, will be delivered. Therefore, it is not unreasonable to fund them through the settlement for local government that I am proposing.

When I watched the evidence, I heard Councillor Gail Macgregor describe our priorities as "excellent" priorities, "which we support", so it is hardly the case that we are foisting unreasonable demands on local government. Actually, they are priorities that we and COSLA support.

**Graham Simpson:** Mr Mackay, you are at your entertaining best this morning.

**Derek Mackay:** Let us see if we can share that around.

**Graham Simpson:** Yes, we will do our best. Let us look at what you describe as a "fair settlement". When we strip away the ring-fenced money and look at the core budgets of councils, we are actually left with a real-terms cut, according to SPICe, of £319 million. Councils will have to make cuts. My first question is: do you accept that all councils are going to have to make cuts?

**Derek Mackay:** Is that the end of the question?

**Graham Simpson:** That is the first question.

11:30

**Derek Mackay:** If I am asked to speculate on whether, in theory, discounting money in the settlement would mean that there was less money, the answer is by definition yes. If I am forced to discount resources in the settlement for a purpose, there is by definition less money. However, in reality, there is more money—in cash and real terms. When we use the public sector deflator, there is a real-terms increase. There is more money in the settlement for local government, as is outlined in the budget and proposed in the local government finance circular.

I do not accept the argument that I should discount resources because someone else wants to define them differently. The Scottish Government's view is that, if we fund Scotland's public services, that is ultimately for things that the Parliament has by and large agreed that we should do, such as free personal care or early learning and childcare. It is reasonable to describe that as part of the settlement, and I have done that. The public will want to know whether there is more money or less and, in fact, the budget proposes more money for local government in cash and real terms—it is as simple as that.

**Graham Simpson:** We will not get far if you do not answer the question. The question was whether all councils will have to make cuts.

**Derek Mackay:** In the same way as all parts of the public sector must look at efficiencies and balancing the books, local authorities will have choices to make. However, we cannot separate out a core from other things—that was discussed in the previous evidence session, which I watched.

Early learning and childcare, general welfare and social care are partnership priorities and are already functions of local government. How can they be described as anything other than core to local government's duties?

Local authorities will have to make efficiencies, but so will the Scottish Government and other parts of the public sector. We will all have to make choices and prioritise in the context of continuing UK austerity, which is delivered by the Conservatives.

**Graham Simpson:** I think that we have got somewhere. You have accepted that councils will have to make cuts.

**Derek Mackay:** We can dispute the language; I am saying that local authorities will have more—

**Graham Simpson:** You use the term “efficiencies”.

**Derek Mackay:** Let us not argue about the definition. Local authorities will have to make efficiencies, in the same way as the UK Government expects others to make efficiencies.

**Graham Simpson:** I am here to grill the Scottish Government, not the UK Government. There will be a £319 million real-terms cut to core budgets—

**Derek Mackay:** No. I do not accept that analysis and I have tried as clearly as I can to explain why, convener.

**The Convener:** We are going round in circles. Graham Simpson is working from one set of figures and the cabinet secretary is working from another. Let us try to get to the core of whatever the issues are.

**Graham Simpson:** There will be a cut to core budgets. Expenditure on roads, leisure and libraries—

**Derek Mackay:** Let us take roads as an example, as they were referred to earlier. The capital budget is going up so—arguably—there is more capital resource to spend on roads if local authorities want to spend it on them. Some local authorities have proposed increases in their roads budgets.

We can pick examples but, in the real world, there is more resource. If you want to argue over definitions and where they lead us to, that is fine—we can do that—but I am talking about real money to local authorities, as proposed in the budget. If the budget is not approved, the reality is that there will be less money for local government. How will we resolve that?

**Graham Simpson:** There is more money overall—nobody is arguing about that.

**Derek Mackay:** That is a welcome concession, indeed.

**Graham Simpson:** It is not a concession.

**Derek Mackay:** That is fine—in cash and real terms. That is good and I am glad that we have clarified that, convener.

**Graham Simpson:** That is the reality, but councils will have no discretion over 42 per cent—or the bulk of the money—because it is for Scottish Government priorities. People do not argue about them—they are good priorities—but the cuts will hit what is left. How is that fair? You are right that there is more money overall but, when your commitments are stripped out, there is less. How is that fair?

**Derek Mackay:** Does Mr Simpson suggest that 42 per cent of the local government budget is ring fenced?

**Graham Simpson:** No.

**Derek Mackay:** That is good. What element of the budget does he think is ring fenced?

**Graham Simpson:** The majority of it.

**Derek Mackay:** That is a totally inaccurate figure with no basis in fact.

**The Convener:** To be fair to Mr Simpson, COSLA came up with the figure of 58 per cent when it talked about statutory obligations, other commitments and so on.

**Derek Mackay:** Ah—but that is a different question, convener.

**The Convener:** That is the figure that Graham Simpson is referring to.

**Derek Mackay:** To be fair, I think that the committee runs the risk of mixing up statutory functions and ring fencing. Since it has been in office, the Scottish Government has reduced ring fencing. It has made available billions of pounds that were previously ring fenced so that local authorities have discretion over how to spend that money.

Statutory requirements are quite a different thing from ring-fenced funding. Statutory requirements are services that members of this Parliament, of whatever persuasion, have chosen to say are statutory services. Are we saying that every local authority should be left to its own devices and that we should not have nationally consistent services in certain regards?

The committee has to be careful not to mix up statutory services with how they are funded. There are specific conditions around ring-fenced funding. The Government has reduced ring-fenced funding since the signing of the concordat and the change

to the arrangements for how local government is funded.

Are some elements of this budget ring fenced? Yes. Early learning and childcare are ring fenced. However, the composition of how the total funding for early learning and childcare—I think that it is about £210 million—will be distributed was decided in agreement with local government. There was a departure from normal process. Sometimes, the money is distributed on a population basis or a pupil basis or whatever. In this case, local authorities costed what they thought would be a reasonable amount to deliver the policy on an authority-by-authority basis and asked us to fund them in that fashion. That element is ring fenced but that totality and that distribution was agreed with local government. Sometimes there are occasions where there should be a ring-fenced fund, and that is a good example.

**The Convener:** Mr Mackay—let people ask you questions.

**Derek Mackay:** I am trying to answer as comprehensively as I can.

**The Convener:** Graham, do you have any more questions?

**Graham Simpson:** Not just now.

**Alex Rowley:** I thought that the pantomime season was over, but we seem to be drifting back into it.

**Aileen Campbell:** Oh, no we're not.

**Alex Rowley:** Almost 50 per cent of a council's budget will be for education, and the bulk of that will be for pay for teachers and other staff. The point about ring fencing that we are trying to make is that, if you then add on the IJB and social work elements, that takes us up to about 70 per cent or so of the council budget. The ability to cut then starts to be limited disproportionately to other services. This week, council leaders are asking, "Do we stop cutting the grass? Do we stop the street cleaning?" We need to think seriously about the impact of ring fencing, as that is the difficulty.

We will not disagree about where we are at with failed Tory austerity. COSLA's point, however, is that it believes that it has taken a disproportionate cut of 7 per cent over the past 10 years compared with a less than 1 per cent cut to the Scottish Government's budget.

In Fife, where I live, despite the fact that you say there is an increased budget, in the current financial year something like £4 million is being cut from the education budget and secondary schools across Fife are having to take a cut of around £2 million as part of that. As a result of that, parent councils are now coming together to campaign,

because the impact of that cut on front-line learning and teaching is horrific. There are cases of no supply teachers being available when teachers are off sick and so on. The public are hearing a debate about whether or not it is a cut, but parents know that real-terms cuts to schools are impacting on their kids' education.

Aileen Campbell has outlined the additional moneys that are coming into communities for specific policy areas. This morning, we heard COSLA say that those are good areas—nobody would dispute that. COSLA has outlined what those additions come to: £3 million for the free sanitary products that Aileen Campbell rightly mentioned; £3 million for the implementation of the Barclay review recommendations that the finance secretary is dealing with; £10 million for the Carers (Scotland) Act 2016; £30 million for Frank's law; £120 million for integration; and £234 million for the extension of early learning and childcare.

COSLA's key argument is that, if the focus is on those areas, COSLA will end up with a deficit if it continues to deliver its current services. Do you accept that? Do you accept that, as a result of that, parents in Fife are rightly angry and are calling on the Government and the local authority to do something about the cuts to front-line education?

**Derek Mackay:** Within all of that, there was a question about the treatment of local government in the Scottish Government's budget decisions. I know that the committee discussed the nature of reductions elsewhere earlier. In terms of its resource settlement, local government gets the best treatment in Scotland; it is less protected in Wales and is certainly less protected in England. That is the context. As I said earlier, as part of the longer-term issue, the Scottish Government has also made a commitment to pass Barnett consequentials relating to health on to health services, and that is what we have done.

For as long as I have been the finance secretary—that is how Mr Rowley posed the question—in the two budgets that I have proposed that have been passed and in the further one that is being proposed, there has been a real-terms increase for local government. So, when I am asked what I am going to do for local government, I answer that I will propose a real-terms increase to the local government settlement. Are there priorities and choices within that? Yes, there are. As a Government, we have tried to protect education. It is up to local authorities whether they wish to do that as well—overall spending on education has actually been improving in a number of local authorities. For example, we have embarked on protecting the pupil to teacher ratio commitment and delivering the pupil equity fund, which has improved in real terms in the education



portfolio that is proposed in the Scottish budget. We have tried to honour our commitments around education and tackling the attainment gap, which I know is important to Mr Rowley.

I do not think that I, as the finance secretary, should go through each individual local authority and instruct the detail of its budget and what proportion it should allocate to every portfolio—local authorities will have choices to make.

There are also live pay negotiations for teachers and non-teachers. Again, I will put the matter in context. For non-teachers, the live pay offer is 3.5 per cent for 2018-9 and 3 per cent beyond that. I suggest that local authorities could make such an offer only if they thought that it was affordable. It is about choices, and local authorities will have to make the choices that are right for them locally. However, Parliament has asked us to do certain things. Members of each party have campaigned for certain elements to be put into the budget, and they have been built in. Do members wish to go through it and say which elements we should not fund? Which elements should be de-ring-fenced? If Parliament is asking us to make those commitments around the expansion of services, it is not unreasonable to have them identified in the budget.

It is a fair settlement. The share of the Scottish Government's budget is protected. For the reason that I explained earlier, excluding health consequentials, I have received a real-terms reduction from the UK Government. In that context, I have proposed a real-terms increase for local government. Local authorities can also use their power to increase council tax by up to 3 per cent to generate a further £80 million for local services.

**Alex Rowley:** Let us get to the point that was discussed earlier about whether these are efficiency savings or cuts. Local authorities argue that there are no efficiency savings left to find—that they have cut to the bone, which is why they are now cutting directly into front-line services. Are you satisfied that you have done your job in looking for efficiencies in all the Scottish Government departments and portfolios and that there are no efficiencies to be found in those areas?

**Derek Mackay:** That is a fair question. Of course, I have gone through each cabinet secretary's portfolio with them to assure myself that they have tried to identify any savings or efficiencies. Will we find new efficiencies as we work our way through, whether in procurement, in better productivity and asset approaches or in whatever it happens to be? Of course.

There are also priorities and choices to be made. Some things might be less important to the

Government and some things might be less important to local authorities. However, when it comes to what the Scottish Government chooses as priorities, I repeat what COSLA told the committee this morning: they are "excellent" priorities. Those were the words of the resources spokesperson from COSLA: they are "excellent" priorities; they are priorities "which we support." For us to say what our priorities are, and for COSLA to happen to think that those priorities are excellent as well, is not an unreasonable place for the Scottish Government to be. Those priorities will potentially mean deprioritisation of other things. It is not for me to set every element of a local authority's budget. However, what we have set out in the budget document and in my statement has been clear and transparent.

11:45

I also caught reference to the national performance framework earlier. That is about outcomes, not inputs, and I believe that those outcomes will still be delivered. The national performance framework is about how people work together. It is not about the quantum of resource; it is about how we bring to bear the totality of our resource to deliver transformational change. I have no reason to believe that we will not deliver on the purpose and the outcomes that we have identified in the national performance framework.

**Alex Rowley:** You have hit the nail on the head. Nobody is disagreeing with the priorities that the Scottish Government has set out—

**Derek Mackay:** Excellent. You will vote for the budget, then.

**Alex Rowley:** However, those priorities are your priorities. As you have said, local authorities are having to deprioritise other areas as a result of those priorities. In Fife, one of those areas is front-line education and schools. That is the bottom line.

**Derek Mackay:** I disagree with that.

**Alex Rowley:** I turn to Aileen Campbell, because I want to ask a question about the housing portfolio. Given the housing crisis in Scotland, the target of 50,000 new affordable homes is commendable. We need to work together to deliver them. Are you satisfied that we are getting it right in the kind of homes that are being prioritised? When we talk about age and adaptations, we talk about the demographics and people getting older. I speak from experience in Fife. In the previous five-year session, 2,700 homes were built there, which was good, but we could have done better in the kind of housing that was prioritised. Are you satisfied that we are getting that right and that that links in with social care and all the other areas?

**Aileen Campbell:** Absolutely. The ambition behind the 50,000 houses is the correct ambition. You have articulated that there were issues and challenges around housing; it was therefore correct that we focused on delivering 50,000 houses. We have articulated the significant investment that we have put in over a number of years to increase the number of houses and we are, of course, cognisant of the fact that we have an ageing population. We need to ensure that the houses that we are building are fit for purpose not just in the here and now, but in the future.

Alongside the current ambition of delivering 50,000 houses, we are working on what the vision will look like beyond 2021. We are working with partners on the changing demographics, the ways in which we will need to ensure that innovations in building techniques are considered and all the things that enable us to adapt those homes to be suitable for people's changing needs. That is work with partners, house builders, the public and private sectors, local authorities and housing associations, for example, to ensure that we absolutely get it right. Your point is a valid one. We are making good progress in ensuring that the housing stock that we are delivering is mindful of the different needs of people in the communities that we serve.

**The Convener:** I have a question for Derek Mackay. Who is responsible for the cuts in education in the Fife Council area—Fife Council or the Scottish Government?

**Derek Mackay:** I am very mindful—I am trying not to be too partisan—of the fact that local authorities put up options at this stage and it does not transpire that all those options are in the finalised budget. There is a consultation period. I do not run Fife Council; its administration runs it—I am responsible for Scotland's budget. The decisions that Fife Council takes are for that administration to answer for. However, I am very mindful, at this point in the budget cycle, of the fact that councils will consult on savings options, but they will ultimately decide what they are taking forward at their budget meetings. We are at the point in the cycle at which a council's decisions might not necessarily materialise in the budget for the year ahead.

Education specifically has been protected in so far as the portfolio has been protected. We are protecting the pupil equity funding, which is making a difference, and we have pupil to teacher ratio agreements that are really important. The extension of things such as free school meals over past years has helped to make a difference to poverty, inclusion and giving children the best start in life.

Of course, we are working on the evidence that tells us that the early years really matter. If we

want kids to get a good start in life, primary education is important, but so are the early years. That is why we are expanding the entitlement to early years provision and funding it.

Incidentally, it might be worth noting that we sometimes overprovide and overfund a particular commitment but do not necessarily ask for clawback of that resource. That happened with early learning and childcare. We overprovided the resource and did not claim it back. In addition, we are putting in the resource that we were asked for to meet the requirement of 1,140 hours.

**Andy Wightman:** It has been interesting to listen to these exchanges. The fundamental problem or issue is that the non-ring-fenced or discretionary funding that is available to local authorities is being cut and, therefore, to deliver early years provision or anything else, they will have to deprioritise or cut other services that they provide. I have a question to try to assist the analysis. I will understand if you cannot answer it now, but it would be useful if you could follow up in writing. What proportion of the funding identified in tables 6.11, 6.14 and 6.15 of the budget is ring fenced?

**Derek Mackay:** The committee would need to take a break if you wish me to do that analysis—

**Andy Wightman:** Indeed.

**Derek Mackay:** However, I can give the overall context. When the previous Administration was in office, ring fencing was well over £2 billion.

**Graham Owenson (Scottish Government):** It was £2.7 billion.

**Derek Mackay:** It is currently at about—

**Graham Owenson:** It is £0.9 billion.

**Derek Mackay:** You asked about ring fencing, and that is the context. We have reduced it from that figure to £0.9 billion. That is the headline figure, if you like.

**Andy Wightman:** Is the figure of £0.9 billion the answer for tables 6.11, 6.14 and 6.15?

**Graham Owenson:** It is the answer for table 6.11.

**Andy Wightman:** Fine. The funding in tables 6.14 and 6.15 is ring fenced, too. Table 6.14 shows the revenue funding within other portfolios.

**Graham Owenson:** Those sums will be transferred into the block grant; they will not be ring fenced.

**Andy Wightman:** So, for example, when it says that there is £120 million for health and social care and mental health, that is not ring fenced.

**Graham Owenson:** It will go into the block grant.

**Andy Wightman:** Will local authorities be able to spend that on libraries or roads?

**Graham Owenson:** You would need to refer back to the point in the cabinet secretary's settlement letter about the expectation on social care spend, but the £120 million will go into the block grant.

**Andy Wightman:** You refer back to the cabinet secretary's letter, which says that local authorities get the money if they do something. If it is accepted, that is, in effect, ring fencing.

**Derek Mackay:** We again need to be careful with the definitions. I made a point about the difference between a statutory duty and how certain elements are funded. It is true that there are conditions attached to certain elements of funding. As is described, table 6.14 shows funding coming from other portfolios to local government. We are specific about that and about the reason for that particular transfer.

**Andy Wightman:** Right, but the intention is that the £120 million for health and social care and mental health shall be transferred to local authorities and spent on health and social care and mental health.

**Derek Mackay:** That is the intention but, to be clear, the specific terms of a ring-fenced fund, which is what Mr Wightman asked about, do not apply.

**Andy Wightman:** That is fair enough. We may have to review the language around the issue in the years going forward.

**Derek Mackay:** You are correct about the intention—I accept that.

**Andy Wightman:** Table 6.15 shows local government funding outwith the core settlement. For example, there is £0.5 million for the Clyde Gateway urban regeneration company. The expectation is that that will be spent on the Clyde Gateway urban regeneration company.

**Derek Mackay:** Yes, it is.

**Andy Wightman:** That is helpful.

I turn to a different matter that is relevant to the budget and that was raised by the Accounts Commission in its report "Local government in Scotland: Financial overview 2017/18". The commission talked about the funding distribution model and pointed out that the quantum to which the grant-aided expenditure needs-based methodology applies has been frozen at £7.9 billion since 2008-09 and that further funding that has been provided since then on top of the grant-aided expenditure has been distributed either

using the same proportions as the GAE funding or through a separate methodology.

Paragraph 18 of the Accounts Commission's report states:

"The Scottish Government advises that in 2017/18, £0.2 billion was distributed using the GAE methodology and £3.5 billion through individual separate methodologies. The basis of the calculations for the separate methodologies are not publicly available and should be more transparent."

Is the Accounts Commission correct in saying that those calculations are not publicly available? If so, can you make them available?

**Derek Mackay:** I do not have the report in front of me. However, the basic answer is that local government funding is, indeed, complex, but the methodology is agreed with local government, so the distribution is generally worked through with it. Like former councillors on the committee, the 32 local authorities will have different perspectives on local government finance distribution, each having a view that suits it. For that reason, it is no surprise that there is no rush from COSLA to suggest that we revisit the methodology.

I have no objection to the workings being shared. Fill your boots, convener, with the internal workings of how every penny is distributed. Ultimately, the principle behind it is a degree of equalisation. If every council retains its council tax and non-domestic rates, the purpose of the rest of the grant-aided support is to provide equalisation so that services can be provided equitably across the country. Generally speaking, the needs-based approach is determined by the population, length of road and a whole host of indicators. The committee is more than welcome to look at that, but there has been no request from COSLA to revisit it.

**The Convener:** You say that it is a very complex methodology and there are 32 different responses. Is guidance sent out to the local authorities about how that methodology should be worked at?

**Derek Mackay:** There is a settlement and distribution group within the Scottish Government and COSLA, and every time there is a change to methodology, it goes through that group and is agreed with local government. Early learning and childcare is a good example. We stepped away from the needs-based formula in terms of how many young people a council has, to look at actual costs, because there was a recognition that different councils might need to do different things.

If there is a departure from the formula, that is done in agreement with the councils and the application is understood. On each issue, as members will be aware, the change goes to council leaders following a recommendation from the settlement and distribution group.

I am more than happy to share what information we have with the committee and I am sure that COSLA would feel the same. My point is that if we change any formula each local authority will argue for what would suit them best. That is their right and duty and what we would expect.

**Andy Wightman:** To be fair, in my line of questioning I was not asking—

**Derek Mackay:** I am just explaining how that complexity has come about.

**Andy Wightman:** Yes, but my question is only on the fact that the Accounts Commission says that the methodologies are not publicly available. Will you commit to making them publicly available?

**Derek Mackay:** If COSLA agrees, why would I not? I started my answer by saying yes.

**Andy Wightman:** So COSLA would have to agree.

**Derek Mackay:** We could share what we have. I am trying to be as helpful as I can. I do not think that anyone is objecting to sharing the information. We will happily provide what we have and members can probe it.

**Andy Wightman:** Okay, that is fine.

**Derek Mackay:** I said, “Fill your boots”, convener, but you might find that it is not as interesting as you think that it is.

**The Convener:** That is the first time that a cabinet secretary has invited me to fill my boots, but thank you very much.

**Andy Wightman:** With respect, this is about making the methodologies available.

**Derek Mackay:** I have said yes.

**Andy Wightman:** Okay—fine. Thanks.

**Derek Mackay:** I will share whatever we can of that methodology.

**Andy Wightman:** In your circular to local government you talk about a 3 per cent cap on council tax increases. What statutory authority do you have to impose that?

**Derek Mackay:** Essentially, in previous years we have had sanctions. I am proposing a sanctions-free budget, with an expectation that local authorities will continue to cap increases at 3 per cent. That is the expectation of the Scottish Government. The Scottish Government has capping authority and statutory powers that it can use in that regard, but we have not had to deploy those, because the capping has been done by local authorities, thus far.

**Andy Wightman:** Your statutory authority to cap is not the power that you are invoking to

impose the 3 per cent cap, however. That power was not designed to control the council tax rate that is set under section 93 of the Local Government Finance Act 1992.

**Derek Mackay:** I am making it clear that the expectation is that council tax will be capped at 3 per cent. That has been complied with thus far, so no statutory power has been required.

12:00

**Andy Wightman:** In our pre-budget scrutiny, we looked, among other things, at workforce planning. We wrote to the Government and we received a response in November. What aspects of the observations and recommendations that we provided in our report have been taken into account in the budget?

**Aileen Campbell:** We presented a response to the committee. As we decided on the budget, we considered not only the workforce planning issues that the committee raised but, as I said in my opening remarks, the issues to do with adaptations that the committee has looked at.

It is important to recognise that, predominantly, local authorities are responsible for their local authority workforce. That is not to say that there is not a common interest in ensuring that we make best use of resource and work together on workforce planning. We certainly took account of the issues that the committee raised.

**Andy Wightman:** Can you give a specific example of how our report was taken into account in the budget?

**Aileen Campbell:** I have talked about some of the work that the Government does. In my portfolio, we work with local authorities to ensure that we have the right skill set to enable us to build houses, in order to reach the 50,000 affordable homes target. That work is on-going. More generally, the Government takes on board the points that the committee makes to help us to work through workforce planning challenges. However, I reiterate that local authorities are predominantly responsible for their workforce. It would not be right for us to tell local authorities how to manage their workforce, and I do not think that you would want us to do so.

In my regular meetings with COSLA, we can talk through such issues and we can direct people to the relevant cabinet secretary. For example, the committee has had a strong interest in education today, and the education ministers, along with COSLA and other interested parties, will be taking forward those issues. We are all working together to ensure that we have in place the right workforce balance in all areas, including the further and higher education systems.

**Andy Wightman:** You mentioned housing. In the budget statement that Mr Mackay made on 12 December 2018, he said:

“we have had confirmation of 80,000 affordable houses built since 2007”.—[*Official Report*, 12 December 2018; c 33.]

However, SPICe has done the research, using the Scottish Government’s own affordable housing supply programme statistics, and has found that, in fact, only 58,427 houses have actually been built. The rest have been acquired off the shelf or are rehabilitations. Do you agree with that?

**Aileen Campbell:** We have delivered on the 80,000—

**Andy Wightman:** The cabinet secretary said:

“we have had confirmation of 80,000 affordable houses built”.

“Built” means to build something. He did not say, “We have had confirmation of 80,000 houses being delivered”.

**Derek Mackay:** For the avoidance of doubt, let us say that 80,000 houses have been delivered. The budget proposes more than £800 million in the next financial year so that we stay on track to meet the 50,000 homes commitment.

**Andy Wightman:** Is the commitment to build 50,000 homes?

**Aileen Campbell:** It is to deliver 50,000 homes.

**Andy Wightman:** At First Minister’s question time on 17 May 2018, Patrick Harvie said:

“the First Minister stood on a manifesto that promised:

‘we will invest £3 billion to build at least 50,000 more affordable homes’

over the next five years. Does that commitment stand?”—[*Official Report*, 17 May 2018; c 16-17.]

The First Minister said, “Yes.”

**Aileen Campbell:** Our commitment is to deliver 50,000 affordable homes. We are making good progress towards the target, and we expect to meet it. We have considerable resources behind it. In fact, of all the Governments across these isles, this Government is the one that is delivering affordable houses for people in Scotland. Since the Government came to power in 2007, we have made incredible progress on delivering affordable homes.

**Andy Wightman:** The First Minister agreed that the commitment was to “build”, not to deliver. I have read out the SNP manifesto.

**Aileen Campbell:** You can argue over the semantics.

**Andy Wightman:** It is not semantics.

**Aileen Campbell:** I have told you about the resource that we have. We are on target to deliver and reach the 50,000 homes commitment. Per head of population, more houses are built in Scotland compared with other parts of the UK.

**Andy Wightman:** I am not asking about other parts of the UK.

**Aileen Campbell:** We are making good progress and we have more than £800 million to fund that commitment.

**The Convener:** This is like an earlier conversation where we were going round in circles. Andy Wightman is talking about “building” and you are talking about “delivering”, cabinet secretary. That is on the record. There is no point going over it any more.

**Derek Mackay:** There is not, other than to say that if we do not approve the budget, we will not be spending £800 million to build houses. Approving the budget helps to meet that target.

**Aileen Campbell:** We have delivered 80,000 affordable homes since 2007, with more than 54,000 for social rent—including more than 10,000 council houses—19,000 for affordable home ownership and 6,000 for affordable rent. We are on target to deliver 50,000 houses for the people of Scotland, given that everyone understands the significant housing need out there.

**Annabelle Ewing:** I want to touch on the issue of reserves with Derek Mackay, because we have not mentioned it thus far. It would be helpful if the cabinet secretary could say how much the Scottish Government holds in reserves.

**Derek Mackay:** We have a particular reporting process for the reserves that the Scottish Government holds. The arrangements have changed. At the most recent reporting stage, the Scottish Government held revenue reserves of £192 million. To put the Scottish Government reserve into context, it might be of interest to the committee to know that local authority general fund revenue reserves, as reported on 31 March 2017, were £1.178 billion. I respect the fact that our financial arrangements are different, but I think that it is helpful to have both those figures.

**Annabelle Ewing:** There is quite a contrast between those positions. Is the cabinet secretary aware whether the amount held by local authorities has increased or decreased since 2010?

**Derek Mackay:** As I understand it, the latest figures show that between 2010 and 2017, local authorities general fund reserves increased from £680 million to £1.178 billion, which is an increase of 73 per cent.

**Annabelle Ewing:** I have to say that we have been hearing about the problems caused by the continuation of the UK Government's austerity programme and reductions in the Scottish Government's budget, but how could a member of the public follow the committee's debate this morning, first with COSLA and then with Scottish Government cabinet secretaries, given the contrasting positions? How do I explain that to my Cowdenbeath constituents when the Labour-SNP Fife Council is considering the different spending decisions that it might wish to make in education and other areas? How does that situation fit with the fact that the local authorities are sitting on £1 billion? That is quite a contrast when we hear what the local authorities might have to do in relation to local service provision. I understand that reserves are for a rainy day, but have we not reached that rainy day?

**Derek Mackay:** I want to be careful in my answer. As the finance secretary, I answer for the Scottish Government's modest reserve, on which I frequently engage with the Finance and Constitution Committee—I am sure that I will do so at our next evidence session. I should not make any comment on the individual reserves of local authorities, although I overheard Mr Rowley say, "It's raining now."

**The Convener:** Metaphorically.

**Derek Mackay:** It is not raining outside—I am glad to say that the sun is shining.

The question is whether, in a period of austerity, we should be using the resources to the maximum to try to provide stability, sustainability and stimulus. My answer is that, as a general rule, we should.

On the Scottish Government reserve, the financial arrangements have changed as a consequence of the fiscal framework. Local government has been a beneficiary of the underspend that has been generated and carried forward. As I said when I was asked about previous reserves and how I would spend them, local government was a beneficiary of any underspend being carried forward into the next financial year.

I carry forward resources. I report anything that is unallocated and held in reserve to Parliament at the appropriate fiscal reporting stage. Those are the figures as previously reported. I can say only that it is for local authorities to be asked about how they choose to use their reserves—which I am sure that they would say are allocated in some cases and unallocated in others. There is a healthy range in which to keep reserves. That is the context for the Scottish Government. I must correct any perception that I have fantastic

reserves to deploy; I do not—the position is as I have outlined.

**Annabelle Ewing:** I thank the cabinet secretary for that answer. It is interesting for the public to hear that while, sadly, we have experienced many rainy days since 2010 in the light of UK Government austerity in particular, local authority reserves have increased by £350 million over that period. Some members of the public might find that difficult to understand—they might be encouraged to ask what each local authority's position is.

I have one last series of questions for the Cabinet Secretary for Communities and Local Government. Sadly, the UK Government's austerity programme has not been brought to an end—far from it. What does the cabinet secretary plan to do in the next financial year to mitigate the continuing austerity-driven measures and welfare cuts?

**Aileen Campbell:** As Derek Mackay said, our budget has suffered: the block grant has reduced by £2 billion in real terms over the past decade. That has undoubtedly impacted on our ability to pursue policies that can help people to cope with the social security cuts and welfare reforms that have happened as a result of UK Government decisions.

On his recent visit to Scotland, the United Nations special rapporteur on extreme poverty and human rights made telling comments about his being surprised by what devolved Governments were having to do to cope with the on-going austerity. We took a decision to mitigate as best we can some of the worst impacts of the UK Government's programme of welfare reform and social security cuts. He also commented that mitigation comes at a price and is not sustainable. He was surprised that we were having to do as much as we are doing to provide a buffer for people who are particularly vulnerable.

This year, we expect to spend more than £125 million on welfare mitigation and measures to help protect people on low incomes. I have talked about some of the things that we are continuing to do around child poverty and I referred to the £50 million that goes with that. There is significant spend on mitigation, which will have to continue, particularly because we must continue to soften the blow of the UK Government's politically motivated decision to impact most on those who are most vulnerable in society. The UN rapporteur made interesting comments on that and shone a light on what devolved Governments across the UK are having to do to help protect their citizens.

**Annabelle Ewing:** I hear what the cabinet secretary says. Will she give us a few examples off the top of her head of what she could do with

that money if it went to her? I see Derek Mackay looking at me, but let us assume, for the purpose of the question, that that money went to the Cabinet Secretary for Communities and Local Government.

**Aileen Campbell:** That would be good.

**Annabelle Ewing:** I think so. What could you do with the money that we are spending on mitigating the impact of policies that we did not vote for and do not support?

**Aileen Campbell:** We are working towards the commitment that we made on the income supplement. That is a policy that we would pursue in an effort to lift children out of poverty, which would be made all the easier if we had more resources at our disposal and if the UK Government was not continually making politically motivated decisions to cut social security or change welfare benefits. We could use the income supplement as a way to help lift families out of poverty.

12:15

However, the reality is that we are continually having to mitigate those impacts, which prevents us from doing some of the things that we want to do and reduces the budget that we have at our disposal to pursue other policies that are positive and which we want to put in place in our own right as a Government. The income supplement is one of the policies in the tackling child poverty plan that we are working towards, but everything would be easier or simpler if we were able to use elsewhere the funding that we are having to use to mitigate the present situation.

**Alexander Stewart:** Earlier, I asked COSLA about the situation that councils find themselves in. We talked about their increasing charges, and when I suggested that those increases were of the order of 3 to 7 per cent, the witnesses said that the charges for burials, for example, were increasing by 20 per cent. That is the situation in which some councils find themselves.

I also suggested that every council is finding efficiency savings or reducing its workload and that a number of councils are balancing their books by using their reserves. I think that every council in my Mid Scotland and Fife region is consulting the general public on various options for what is going to happen to its services, but the majority of those options involve reductions. That is the reality in my region, and it would be interesting to hear Mr Mackay's views on that.

**Derek Mackay:** It would also be interesting to hear from a Conservative member how a £0.5 billion tax cut to the richest in society would help us with that predicament. According to the

Conservatives, charges are allowed only with regard to education, whether that be tuition fees or whatever, although I accept that the latest U-turn and change of position from the Conservatives has been on prescription charges. It appears that the Conservatives are for charges for people who are trying to be educated or who find themselves in another position. I think that all members must reflect on their own political position when they ask about budget choices.

Mr Stewart did not reflect on the positive proposals in the budget with regard to continued support for school building, housing, capital expenditure and, indeed, town centres, which the Conservatives were interested in at one point and demanded a ring-fenced fund for. I have proposed capital investment in town centres, but there has been no mention of that from the usually generous Mr Stewart. Every member should reflect on the positives in the budget, too.

As I said at the outset, the alternative to the Government's budget being approved is less money for local government. That is the reality when it comes to the decisions that we are asking Parliament to take. All the things that were described as excellent priorities and which were very much welcomed—I see Mr Stewart nodding in agreement at that—cannot happen if we do not fund them, and the budget proposes funding for them. As I have tried to outline, it is natural that local authorities will have to make choices and look at efficiencies but, as was pointed out in the previous evidence session, that is not necessarily to do with the decisions taken by the Scottish Government. The public sector might well face pressure from, say, pay and demands on services, but all of that is in the context of our funding decisions to give local authorities more resources through a real-terms increase in resource and capital and the ability to raise more through council tax.

I again point out that the context for the budget is the £2 billion reduction over 10 years in our resource budget from the UK Government. Excluding the NHS health consequentials, if I had not taken the decisions that I am proposing to take and had just photocopied and applied the cuts from the Chancellor of the Exchequer, there would have been a real-terms reduction for local government, not the real-terms growth that is proposed in the budget that I am presenting to Parliament.

**Alexander Stewart:** COSLA mentioned the £400 million-worth of new commitments, which might cover some of the good stories and new initiatives that it believes will be beneficial to communities and council areas. Given the funding package that is proposed and the fact that the Scottish Government is asking local government

to take on board new commitments amounting to £400 million, do you not accept that there will be a shortfall in some areas?

**Derek Mackay:** I do not underestimate the pressures that local authorities are facing, which are being faced right across the public sector. However, the source of the problem is a UK Government that is continuing with austerity. That said, even with the limited levers at our disposal, we are making choices that are turning that real-terms reduction into real-terms growth, and we have set out priorities in that respect. I thought that the Conservatives agreed with some of those priorities. For example, there has been a campaign for the extension of free personal care. Frank's law is being funded in the budget. Are the Conservatives now telling us that we should not fund that measure, which has been campaigned for and is in the budget?

Each member of the committee will have an interest in one or other of the commitments that are being funded in the budget. It would be somewhat surprising if I were to suggest that we should not fund one of those commitments and should instead leave it to the discretion of local government. I suspect that members would end up asking in the chamber why we did not provide the funding to deliver that commitment.

I accept that there are challenges and pressures. However, I propose a real-terms increase, and I propose to ensure that local authorities can raise the revenues that they need to deliver their services. If I had followed Mr Stewart's advice to deliver a tax cut to the highest earners in society, instead of meaning more for local government—or anyone else, for that matter—it would have meant £0.5 billion less for Scotland's public services.

**Graham Simpson:** I have a question about adaptations. Is it okay to ask it now?

**The Convener:** Yes.

**Graham Simpson:** This question is for the Cabinet Secretary for Communities and Local Government. As you know, the committee wrote to you about adaptations. In that letter, we pointed out that the budget for adaptations had been £10 million for some years but had been outstripped by demand, which meant that there was a growing funding gap. In your reply—you reiterated this earlier—you said that there are no plans to increase that budget and that it will remain at £10 million. Will the situation not just get worse and worse?

**Aileen Campbell:** We have maintained the adaptations budget for RSLs, which covers 30 local authorities, at £10 million. Glasgow and Edinburgh adaptations funding for RSLs is provided through the transfer of management of

development funding budget, which, on average, adds a further £3 million to the pot that is provided by the Scottish Government. Therefore, while the £10 million is an explicit line in the budget, it is not the total pot that is used to fund adaptations.

We agree with the suggestion that the Scottish Federation of Housing Associations made in its evidence to the committee that there should be better alignment between people who need an adapted property and the allocation of void properties. My recent correspondence with the convener indicated that my officials are working on a review of the existing legislation and guidance on adaptations. There is probably a bit of unnecessary complexity there. More work is needed to co-ordinate that legislation and guidance and to ensure that it is much more focused on an individual's needs.

Work is on-going to test out how we can use that funding in a better way, and pilots are already in place on better co-ordination of the pot of money for adaptations. I understand that the pilot in the Scottish Borders is making good progress.

We took cognisance of what the committee told us in its letter. That is why we decided to maintain the adaptations budget at £10 million. Along with that, though, we are committed to ensuring that we look more carefully at other parts of public life and not just at maximising the impact of the £10 million budget line. I value the committee's work on the issue—and its letter to me—because it enables us to put more pace into that work. It is clear from the SFHA's evidence that that work is necessary.

We acknowledge your keen interest in adaptations—the issue has been raised by the committee over a number of months and I think that you heard evidence on it in October—and will continue to keep you updated on it. There is progress that demonstrates movement on the issue. There is the £10 million, plus the further money for Glasgow and Edinburgh through the transfer of management of development funding budget line. We also need to make sure that we see demonstrable change and the provision of a policy lead now that the IJBs are in place.

**Graham Simpson:** As you know, that is an on-going issue for the committee. We need to be assured on an on-going basis that things are improving.

**Aileen Campbell:** I absolutely agree. That is why we wrote to the committee in the way that we did. We want to maintain the budget line but we do not want to lose sight of the fact that there is an on-going need to explore the totality of the landscape and to co-ordinate the approach in a better way so that we enable everyone, including local authorities and RSLs, to focus on people's



individual needs. That is the motivation or driver for providing adaptations in people's houses.

I suppose that the issue goes back to the question that Alex Rowley asked about how we build houses that are more easily adaptable or fit for purpose from the outset. The work on adaptations is being done alongside the on-going work to ensure that the houses that we are building now are adaptable and that the house-building projects that we take forward post 2021 are much more understanding of demographic changes and the need to build good-quality houses that are adaptable to the changing needs of the population. It is important to look at the whole issue.

**Graham Simpson:** Perhaps you will keep us informed about the review.

**Aileen Campbell:** Absolutely—we are happy to do so.

**Alex Rowley:** Finance secretary, you said that you could talk about the real-terms increases in the previous two budgets. When I met council leaders earlier this week, one of them told me that they are planning a number of scenarios, one of which is based on the approach taken to the previous two budgets, in which you announced the settlement for local government but, after negotiations with other parties, an additional sum went to local government—last year, it was, I think, £35 million. That leader is working on the scenario of that happening again this year.

Is there more money on the table? Is there an opportunity for other parties to negotiate with you for further moneys to go into the local government settlement, as has happened in the previous two years?

**Derek Mackay:** That is a good question. If it is a serious question about whether my door is open to other parties in Parliament that are serious and want to meet me to discuss how our budget might progress, I would welcome it. However, in all seriousness, it is not a reflection of the Labour Party's or other parties' current approach to their budget positioning. I have said consistently that, if a party wishes to come to me with ideas and a credible plan as to how we could amend the budget, I am open to such engagement. I recognise that we are a minority Government and require the support of another party to get the budget through Parliament—that is not news, and I am open to that engagement.

However, as I hope I reflected earlier, I have very limited fiscal flexibility. I have tried to set out a budget that Parliament can support. I have put in resource to meet the commitments that Parliament has asked us to make, to see through the Government's programme for government and to ensure that we provide stability and sustainability

for our public services and economic stimulus, which is for the good of the country and, ultimately, for the good of revenues. I do not have much fiscal headroom left, but I am willing to engage with other political parties to enable the passage of the Budget (Scotland) (No 3) Bill.

The reason why that issue is important is not just to do with what political parties may seek by way of concession or amendment. The risk is that, if the budget goes down, there will be a difference of £2 billion. Everything that we discussed earlier—such as the £826 million just for housing that members have touched on, the sum for free personal care or the £700-odd million increase for the NHS—is at risk if the budget is not passed. For that reason, every Opposition party should take the opportunity to engage with me seriously. I have to say that some Opposition parties are not doing that. I do not know whether that is because of their constitutional obsession, but they are maybe not taking the budget process as seriously as they should. Members should be true to their word—we are talking about the jobs, services and people of Scotland, which is why the budget is so important.

Do I have much fiscal headroom? As I said, no I do not. I have described the position on reserves based on the most recent reporting figure and I have proposed in the budget how the budget will be funded. I do not have much room for manoeuvre, but I am happy to engage with any political party to see how we can find the necessary compromise to allow the realisation of that £2 billion extra expenditure, as currently proposed, for Scotland's public sector and to enable Scotland as a country to make the necessary progress. That is an aim that I am sure we all share.

12:30

People should not play games with the budget. Now, of all times, the country needs stability and certainty. The chaos that is unfolding at Westminster is a disgrace and an abdication of duty by the UK Government. The Scottish Parliament should show itself to be the competent, reasonable and socially minded place that it is and was built to be.

**The Convener:** On that note, I will move on to Kenny Gibson.

**Kenneth Gibson:** Finance secretary, we have heard a lot of evidence from COSLA this morning, as well as questions from committee colleagues, expressing concerns about local authority budgets, but do you share my bewilderment that no one has put any numbers on the additional funding that they think should go to local government this year, or how that should be

sourced, whether that is from taxation or other areas of the Scottish budget? We heard some undefined and rather woolly suggestions about additional levers although I am not sure how those could be introduced in the time that we have before the budget is due to come in. I am just wondering whether any other political parties or COSLA have come to you with any specific numbers. Have they been as coy with you as they have been with us today?

**Derek Mackay:** I will be transparent with the committee and say that they have not done so yet. There has been some reference to the negotiations with COSLA. COSLA set out its asks in relation to social care and I surpassed those requests for support to meet the social care pressures that councils have been experiencing; a figure was offered and I went beyond that in the proposed support in the social care budget line.

The Greens have described a position that is based on meaningful reform of local taxation—that is in the public domain—but, as it stands, I do not have a specific figure for a budget amendment. I understand that other parties have described their positions. The Conservatives have not set out a figure for increased resources for local government; that is hardly a surprise given that the Conservatives' position is to have a tax cut of more than £0.5 billion to match the UK position on adjusting income tax.

I do not have a specific quantum that has been asked for by other parties. Of course, I would respect the negotiation if that were to be offered up privately in any discussions with other political parties. However, in answer to Kenny Gibson's question, as it stands, I do not have an alternative budget proposal from another political party or COSLA.

**Kenneth Gibson:** Are there any additional powers that could be delivered this side of the budget? We heard a request from COSLA for more flexibility in powers, which really means an ability to raise more funds from the people living in councils' areas.

**Derek Mackay:** I have said that I am open to discussion on local discretion and taxation and on individual ideas, but they have to be raised with the Scottish Government in a serious and credible way. If something requires legislation, it will require that we go through the necessary processes to legislate.

Mr Gibson will be aware that the Government has no plans for what is described as a tourist tax or a transient visitor levy, although we are conducting a national conversation on that topic. If the political parties, COSLA or anyone else has a proposition about a levy or a tax, they should bring

the detail to me. That offer is still open to everyone in Scottish politics.

**Kenneth Gibson:** We heard from Gail Macgregor, who said that local authorities in England and Wales are "collapsing", given the funding reductions that are taking place. Does the cabinet secretary find it extraordinary that Tory colleagues are castigating the Scottish Government over local government funding at the same time as they are supporting a UK Government that has both cut Scotland's budget and eviscerated local government south of the border?

**Derek Mackay:** I would agree with that characterisation. It is more a case of, "Do as we say, not as we do where the Tories are in office." Earlier, I highlighted the point that we have protected local government in a way that local government has not been protected south of the border or in Wales. The local government share of our proposed budget continues to be 27 per cent. Some of the elements of capital must be particularly welcome, and every member and community surely welcomes the town centre funding of £50 million, which is a real-terms increase in resource. There is an interesting contrast between what is happening south of the border and in Scotland.

**Kenneth Gibson:** As I understand it, the only member who welcomed that £50 million after the budget statement was me, as I asked a question about it, which you were not expecting.

COSLA said that, like for like, the Scottish Government has reduced local government's share of the budget. Given that the NHS now provides a host of new surgical procedures and new medicines and is dealing with 25 per cent more accident and emergency cases than five years ago, is it not the case that the like-for-like situation has shifted quite considerably for the NHS as well as for local government?

**Derek Mackay:** That is a fair analysis. I tried to describe earlier that when we have made a commitment to pass on the Barnett consequential to health resource, we have done that. That gives something of an explanation to the share of the budget for health.

I have maintained local government's share of the budget at 27 per cent and, over the period, local government has been treated fairly. I have turned a real-terms reduction to Scotland's resource block grant into real-terms growth for local government and, by that analysis, that is surely a fair settlement, notwithstanding the challenges that local government faces. Local government is not in isolation with those challenges, as they are faced by all parts of the public sector.

We have funding commitments to the NHS. If another political party in this Parliament has an alternative plan for funding the national health service substantially less in order to give another part of the public sector substantially more, it should say so. Our proposition, as I described in the budget, is to give an uplift of more than £700 million to the national health service, passing on the consequential and making up for the underhand shortfall at the hands of the Tories. They promised so much for Scotland's national health service and then underdelivered. The Scottish Government's budget makes up that £50 million shortfall and, at the same time, allows more resources in real terms for local government.

That is why I think that it is a fair settlement. If I had simply replicated the cuts from the chancellor, local government would have been in a much worse position.

**Kenneth Gibson:** Also, the NHS would have been £50 million worse off.

There is one other thing that has not been touched on, but the cabinet secretary will know all about it, because I have been raising it for the past four years in the political party of which we are both members. Is it not time that the Scottish Government looked at the issue of much more radical reform of the public sector? For example, in Fife, the local authority is coterminous with the NHS, yet it has an integration joint board, a local authority and a health board. Rather than having a tug of war between the council and the health board with all the bureaucracy that that entails, would it not be better to look seriously at merging the health board and the local authority so that we have one democratic structure? That would reduce bureaucracy and allow greater transparency and more resources to go to the front line.

As you know, I have proposals of a similar nature for other parts of Scotland. I am not sure what the Greens are proposing in terms of reform and having more funding control but, in my view, the structure of local government and the public sector in Scotland needs much more radical reform. Is it not time that the Scottish Government looked seriously at that? Whether it decides to go forward with reform is another thing, but it should at least examine it; otherwise, this time next year, we will be having exactly the same debates as we are now.

**The Convener:** I am not convinced that that is part of the budget process, cabinet secretary, but feel free to answer if you want.

**Kenneth Gibson:** It is, because it is about more efficient use of public money.

**Derek Mackay:** The good news is that, as communities secretary with a lead role for the local

governance review, Ms Campbell is desperate to take on that question.

As to the question whether we should achieve public service reform and transformation efficiencies through how we design services and focus on outcomes, I entirely agree. We do not want to waste resource on unnecessary boundary disputes, power struggles or anything else. However, live engagement is going on right now to achieve such outcomes and it is right that I defer to Ms Campbell, who is leading on that.

**Aileen Campbell:** Thank you. That is not a new concept. Some of the things that Kenneth Gibson talked about—perhaps not the suggestions that he explicitly outlined—are issues that, in his 2011 report, Campbell Christie challenged us to examine, such as wider reform, having people at the centre of decision making and empowering our communities.

That is very much the focus of the local governance review, the consultation for which has recently closed. My officials are currently analysing what people have suggested for how the governance of Scotland should look. If you have not had a chance to take part in that consultation, there is still an opportunity to feed your views in.

A wide range of people have been engaged in the issues, such as which powers from which body or entity could or should be further devolved to communities, and whether the power balance is right at the current time. Some of that will allow us to pursue some of the issues that you raised about coterminous boundaries and making sure that our public entities work far better together. We do not want them wrestling about who is in charge of what, whose budget should be used and what cannot be touched.

We want to be able to move community planning partnerships further forward so that they have much more ability to work together and make better decisions for the communities that they serve, putting the community at the front of decision making and disregarding their own boundaries, whether the entities are the NHS, local government or whatever. There is opportunity to do more of what you described through the local governance review, and we have not ruled out legislation, if required.

**Kenneth Gibson:** Community planning partnerships are yet another layer and nobody in the general public knows what they do. The time for tinkering is over and we need radical reform of the public sector if we are going to be able to deliver for the people we represent.

**Aileen Campbell:** I look forward to reading your consultation response.

**Kenneth Gibson:** I have been pushing this for four years. I will not go into internal party machinations any further, but it is something that we need to address.

12:41

*Meeting continued in private until 12:59.*

**The Convener:** Cabinet secretaries, thank you both very much, as well as everybody else who came along with you. That was very helpful, and that concludes the public part of the meeting.

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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