



OFFICIAL REPORT
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Local Government and Communities Committee

Friday 28 August 2020

Session 5



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Friday 28 August 2020

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LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

19th Meeting 2020, Session 5

CONVENER

*James Dornan (Glasgow Cathcart) (SNP)

DEPUTY CONVENER

*Sarah Boyack (Lothian) (Lab)

COMMITTEE MEMBERS

Annabelle Ewing (Cowdenbeath) (SNP)

*Kenneth Gibson (Cunninghame North) (SNP)

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

*Annie Wells (Glasgow) (Con)

*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Fraser McKinlay (Audit Scotland)

Elma Murray (Accounts Commission)

Kathrine Sibbald (Audit Scotland)

CLERK TO THE COMMITTEE

Peter McGrath

LOCATION

Virtual Meeting

Scottish Parliament

Local Government and Communities Committee

Friday 28 August 2020

[The Convener opened the meeting at 10:00]

Interests

The Convener (James Dornan): Good morning. I welcome everyone to the 19th meeting in 2020 of the Local Government and Communities Committee. I thank the broadcasting office for its help in organising the meeting, and I ask everyone to ensure that their mobile phones are on silent. We have received apologies from Annabelle Ewing.

I welcome Annie Wells, who is new to the committee; she replaces Jeremy Balfour. Agenda item 1 is to ask Annie Wells to indicate whether she has any relevant interests to declare.

Annie Wells (Glasgow) (Con): Thank you, convener. I am looking forward to working with the committee and the clerks over the coming months. I have no interests to declare.

Decision on Taking Business in Private

10:01

The Convener: Item 2 is consideration of whether to take in private agenda item 4, which is consideration of evidence heard at today's meeting.

As we are meeting virtually, instead of asking whether everyone agrees to take that item in private, I will ask whether anyone objects. If there is silence, I will assume that you are content. Does anyone object?

I will take that silence as acquiescence. The committee is content to take agenda item 4 in private.

Pre-budget Scrutiny 2021-22

10:01

The Convener: Agenda item 3 is an evidence session with the Accounts Commission. This is the committee's first formal evidence session for our pre-budget scrutiny in the lead up to the 2021-22 Scottish Government budget. On 26 June, we agreed to make the financial sustainability of local government the main focus of that scrutiny. Although this is our first formal evidence session on this matter, since the crisis broke, the committee has been gathering evidence to scope the impact of Covid-19 on local government services and finance.

Today, we will discuss the Accounts Commission's report, "Local government in Scotland Overview 2020", which was published on 23 June. We will also look forward to the challenges that councils are likely to face in the coming months.

I welcome Elma Murray, who is the interim chair of the Accounts Commission; Fraser McKinlay, who is controller of audit at Audit Scotland; and Kathrine Sibbald, who is an audit manager at Audit Scotland. I am grateful to the witnesses for taking time to answer our questions today. Although it is not her first appearance before the committee, this is Elma Murray's first appearance before us as the Accounts Commission's chair; I welcome her warmly. I also pass on the committee's best wishes and thanks to her predecessor, Graham Sharp. We appreciate our strong working relationship with the commission.

As this is a virtual meeting, we will take questions in a pre-arranged order. We might have time for a small number of supplementary questions at the end. Each member will have around nine minutes in which to ask their questions, and you will be notified when you have one minute of your time left. Because there are three people on the panel, please indicate clearly who will answer each question. I ask everyone to give broadcasting staff a few seconds to operate your microphones before you begin to ask your question or provide an answer.

I invite Elma Murray to make a short opening statement.

Elma Murray (Accounts Commission): Good morning. Thank you for your kind remarks about our previous chair; I will ensure that they are passed on to him.

On behalf of the Accounts Commission, I welcome the opportunity to discuss with the committee our recently published local government overview report work, the initial

impact of Covid-19 and what that means for our audit work in the coming months. It is important to recognise that the extent of the initial impact on council finances will not become apparent until after the end of the 2020-21 financial year. Our next financial local government overview report is due in the spring of 2021, and that will be based on the 2019-20 accounts. Because the pandemic took hold in March, just before the financial year end, those accounts will not reflect the impact on local government finances. Therefore, the financial overview report that will cover the financial impact of the first full year of the pandemic will be the report that will cover the 2020-21 accounts, which will be available in late 2021 or early 2022.

The pandemic has created a unique, challenging set of circumstances for local government and the wider public sector. The full impact of the pandemic will become apparent only over time. Our audit work is on-going and our annual local government overview, which we expect to publish in 2021, will outline the response to the pandemic by local government.

Having said all that, it is now clear that there will be considerable additional costs and loss of income for councils as the situation continues. In the first quarter of 2020-21, significant amounts of income have been lost due to closed facilities and lower-than-anticipated collection rates. Further costs have also been incurred through redeploying staff in response to the pandemic, new responsibilities, shielding and social distancing measures, increased demand for some services and the need to cover workforce absence. Councils have played a key role with their partners, including the third sector, in providing co-ordinated support to communities. Lockdown has had a profound effect on key services, such as education, social care, provision of benefits and many others. Very few, if any, council services have been unaffected by the impact of the pandemic through lockdown and social distancing.

Councils have quickly pivoted to new digital delivery models, and we have seen many examples of change and innovation introduced that were previously considered impossible, such as the widespread shift to home working, with thousands of staff now working from home, and digitally delivered services in education. We will report on those in our overview in the summer of 2021.

I also point the committee to Audit Scotland's recent briefing, "Covid-19: Implications for public finances in Scotland", which was published on 20 August. That report outlines a number of risks that have emerged, as well as providing an overview of the funding announcements that have been made in recent months. It might be of real interest to the committee.

Moving on, I will now speak about the “Local government in Scotland Overview 2020” report, which, as the convener pointed out, was published on 23 June. It was compiled before the escalation of the pandemic and is an overview of local government in 2019. We delayed its publication because of the pandemic. However, we consider that the messages that it contains are helpful as part of the recovery. The overview sets out that, even prior to the pandemic, the context in which councils have been operating is increasingly uncertain, complex and challenging, and the strain on budgets continues to intensify. Cumulatively, the pressures are beginning to show across service performance, with councils dipping into their reserves to make ends meet.

Our message to councils continues to be that good medium and long-term financial planning is vital with the level of uncertainty that exists, and that it is fundamental to support service redesign and transformation. The Covid-19 pandemic and the recovery from it has amplified those points. As the committee takes forward its inquiry, I encourage it to reflect on exhibit 2 on page 15 of the report, which provides a useful comparison of deprivation, rurality and funding per head of the population. The report emphasises the need for strong leadership, radical change, robust workforce planning, collaborative partnership working and greater community empowerment engagement.

In view of the changes and timing of when the commission will publish its reports in the coming months, and because we are continually gathering intelligence and insight about how our public services are responding, we would be happy to engage with the committee more regularly, particularly as its inquiry progresses, perhaps in round-table sessions, private sessions or whatever way you would find helpful.

Fraser McKinlay, Kathrine Sibbald and I are very happy to answer your questions.

The Convener: Thank you very much for that. It was very helpful. We will take on board your offer to engage more frequently, and we will be in touch with our response.

It is accepted that there was a 3.3 per cent decrease in revenue funding in real terms between 2013-14 and 2020-21. However, since 2017-18 there has been a 3.9 per cent increase in real terms. Do you draw any conclusions on how—if at all—that has helped to close the funding gap in local government budgets?

Elma Murray: You are right: we have seen changes in recent years. I suggest that the question on the funding gap might be slightly more difficult to answer, not least because a range of different and new responsibilities have come to

local government. I will pass over to Fraser McKinlay to pick up on the detail of that.

Fraser McKinlay (Audit Scotland): I have not much to add to that. Elma Murray is right that the funding pattern has changed in the past few years. We have seen an uptake in Government funding, which continues to be the biggest chunk of funding that goes to local government. However, we also need to look at the rising demand, which is particularly difficult to say anything about at present because the past six months have completely changed the landscape, in terms of the amount of money going into local government and the significant increase in costs and demand, some of which Elma Murray set out in her opening remarks. We cannot say that the increase in itself has significantly relieved the pressure on the sustainability of local government. I guess that the Convention of Scottish Local Authorities would argue that those financial sustainability pressures continue to increase.

As Elma Murray said, we will have a much better picture of all that towards the end of this year, when we conclude this year’s annual accounts work, which will take a bit longer because the deadlines have moved by a couple of months. It will therefore be the turn of the year before we have a fuller picture of exactly what the financial position is.

The Convener: I was going to ask what effect Covid was having on that but, as Ms Murray said, you probably will not be able to give us a fuller picture of that until the next report. This question is probably for Ms Murray. What areas of service and operation were most at risk going into lockdown and have you seen any signs that Covid has changed that?

Elma Murray: Over a number of years, the committee has considered the risks in relation to social care, for example, which has been extensively impacted by Covid-19. Although I said that we will not have clear audited evidence until next year, we are gathering a degree of insight this year as we go about our work, and it is fair to say that there are real concerns around social care in the future.

Education has also had to pivot and change significantly. Again, the committee will have heard that that service has been under pressure for a number of years, but it also had to move towards a different type of learning model from when schools closed earlier this year right up until the summer break; then it had to make preparations to allow schools to return in full just in the past couple of weeks. That has increased pressure on the service, as far as we can see, but we will not know more about that till later on. Those are the two main services that have been affected. Kathrine

Sibbald might be able to say a bit more about other services.

Kathrine Sibbald (Audit Scotland): I draw the committee's attention to exhibit 5 in the "Local government in Scotland Overview 2020", which sets out local government expenditure from 2013-14 to 2018-19. It shows where there have been increases in cash funding and the areas where funding increased in cash terms but was quite a small percentage in real terms.

The Convener: Again, this question is probably for Ms Murray. Is there any cause for optimism in the new ways of working that local authorities have had to put in place? You talked about leadership, partnerships, et cetera. Are there any signs that that has been working and that it might become a long-term method for local authorities to save money or use it more wisely?

10:15

Elma Murray: We make it clear in our report that growth deals have provided an opportunity and a vehicle for greater partnership between local authorities and some of the key partners in their area.

In looking at the economy, that is a particular lens through which we can see what we would consider to be a significant impact as a result of Covid-19. The partnership working that has grown on the back of some of those growth deals has been recognisable and quite tangible.

During the pandemic, councils have been working quite differently from before. In pivoting their services to address issues and areas where their communities have most needed support, they have worked in different ways with health colleagues and with colleagues in the third and voluntary sectors.

We are already seeing signs that different relationships are starting to appear and develop between councils and some of the communities with which they had perhaps not engaged so extensively before. That is particularly helpful for councils in thinking about how they move towards the recovery stage.

On leadership, the way in which councillors and senior officers in councils work in the future will be increasingly important as they lead their councils and their areas through the recovery phase and engage with the leadership in their partner organisations. That will set the tone for how everything will work.

Sarah Boyack (Lothian) (Lab): I will follow up on the convener's question about the local government finance strategy before Covid and what has been happening since. Do you have any perspective on the services that had been reduced

in the run-up to Covid, and the long-term erosion of local government budgets? You observed that the money went up in the past couple of years, but has there been a long-term impact as a result of services being withdrawn?

I also want to focus on the current position of local government. Elma Murray made a comment about dipping into reserves. My understanding is that councils have to start thinking about this year's budget now, at a point when they still do not know what moneys they are spending as a result of Covid. Will you comment on those two issues?

Elma Murray: Councils, and the Convention of Scottish Local Authorities in particular, have made clear their position on funding, and I would expect them to continue to do so.

With regard to the services that I identified in my response to the convener, such as social care and education, there is a degree of risk around their financial sustainability—not so much for education, but certainly for social care. Any review that might be forthcoming to look at social care in particular is very much needed, and would help to sort out some of that. I will hand over to Fraser McKinlay in a minute to comment on that.

Your second question was on councils dipping into reserves. It is fair to highlight that councils set their budgets for this year in February, before we entered the pandemic, and before anyone had a good sense about what it would mean. Councils will be looking carefully at how they manage to get through to the end of this year, never mind starting to look at how they set their budgets for next year.

Fraser McKinlay: On the services question, we set out on pages 21 and 22 of our report what the broad financial position was before the pandemic. We have tried to capture the position with funding, the increasing cost pressures, and, in broad terms, some of the measures that councils have been taking to manage the situation.

On spending, page 22 has a section called "Other service areas". You can see that, broadly speaking, local authorities' spending on education and social work is being protected in the best way that they can. However, we can also see that there have been significant changes in spending in other important areas—for example, "Planning and development services", "Central services", "Cultural and related service" and "Roads and transport" have had significant reductions in spend. Those areas are critical to economic recovery. There is no doubt that how some of those local government services have been impacted during recent years becomes really important as we look ahead to recovery and renewal.

On the current picture, as Elma Murray said at the outset, last week we published a briefing that

tries to set out the money that has flowed into Scotland since the pandemic started. I will not go into all the detail, but, in a nutshell, about £480 million of additional funding has come to local government. Quite of a lot of that is tied to specific things, so it does not necessarily solve the issue.

The conversation around how local government finance works needs to be positioned in the broader context of how the money for Scotland works. As members know, the fiscal framework between the United Kingdom and Scottish Governments is due to be reviewed in 2021. The Scottish Government has asked for that to be brought forward and it is, I think, still waiting to hear back from Treasury.

In COSLA's recent response to the Finance and Constitution Committee, it was made clear that the review of the fiscal framework at a UK and Scotland level should also include a review of and debate on what a fiscal framework between the Scottish Government and local government looks like. We have had that conversation many times with the committee and, indeed, a review was committed to in last year's budget.

That was a long way of saying that I do not think that councils are, as you say, in among next year's budget process. I do not think that they have had to deal before with such a volatile and uncertain future. From our perspective, as Elma Murray said at the get-go, that is why we consider that, as difficult as it is, it is so important for councils to have well-established medium-term and long-term financial planning processes. That will give them a better chance of carrying out, as best they can, the scenario planning and making the assumptions that will be needed to set the budgets next February.

Sarah Boyack: Thank you. That is really useful.

I will follow up on the issue of longer-term finance, which comes out strongly, because that is not just about what councils decide. At the moment, there is a tension between local governance and local administration. The statistics show that there is more and more centrally directed Government investment for Government services. What scope do local authorities have with regard to the budget that they control? For example, in education, they have remobilised schools, but, in the past week, the face-coverings issue has come on to the agenda. Changes are taking place all the time. We need to get a sense of the balance between local government and central Government when it comes to controlling income and expenditure.

One issue that has come through to me from council colleagues is the nervousness about the drop in income. I do not know how much work you

have been able to do on that with regard to the impact of Covid.

The two issues are the balance of control that councils have over their budgets, because they are spending it on Scottish Government priorities, and their own income going down because of Covid. Do you have an overview on those two issues?

Elma Murray: Councils and their associated bodies have had a reduction in income. We are also already seeing increases in rent arrears, for example, which contribute to all the different forms of income that local authorities might expect to receive. A concern is definitely arising in that regard. I pass over to Fraser McKinlay.

Fraser McKinlay: I do not have much to add. We do not have a lot of detail yet on exactly how much the income reduction will be—auditors will be looking at that this year. However, it will be significant, because many of the measures that would have brought in income have not been able to operate in the past wee while.

There are other important issues, not least arm's-length external organisations, many of which are revenue generating and have an important relationship with councils. In effect, many councils have had to underwrite ALEOs, such as sport and leisure trusts. The position will vary, depending on the set-up in different councils. We will have a much better understanding of all that towards the end of the year.

The Convener: Sarah, you have about one minute left to ask another question. I remind the witnesses that they do not have to press their mute buttons; broadcasting staff will do that for them.

Sarah Boyack: I go back to my first question about reserves. The witnesses have talked about long-term change, but in-year financial change will be a massive issue for councils this year. Do you have an overview of the reserves issue and on the cuts that might have to be made before we get into next year's budget?

Elma Murray: Reserves have been reducing over the past few years. Fraser McKinlay or Kathrine Sibbald might be able to reflect on anything that they have seen since we produced our report.

Fraser McKinlay: Last year, we reported that, for the first time in a long time, reserves pretty much dipped across the board. Therefore, even before Covid, councils were already dipping into reserves a bit more.

At that time—12 months or so ago—we were interested in seeing whether that was the beginning of a pattern. Of course, it will now be difficult to ascertain whether there was a pattern,

because we are certain that councils will have to dip into reserves. In itself, that is not a problem; in a sense, reserves are for a rainy day, and this feels like a rainy day. It is okay doing that, but it must be done in the context of good medium-term and longer-term financial planning. Councils that are in a better financial position will be better able to weather the storm. However, dipping into reserves is not sustainable. It will help councils to get through this year, but there needs to be a discussion about the longer-term financial sustainability of local government.

Alexander Stewart (Mid Scotland and Fife) (Con): Ms Murray talked in her opening statement about financial uncertainty and touched on some of the on-going partnership working. Previously, the Accounts Commission updated us on the position of integration joint boards and on the teething problems that they were suffering as they took forward work along with local authorities. How is that progressing? Have some of the issues with the IJBs been addressed? As you said, social care has a massive impact, and there are bound to be consequences for IJBs.

Elma Murray: I will reflect on a couple of things. A number of IJBs have medium-term financial plans, which is good. However, none of them has a long-term financial plan, which gives rise to some concern about how they will manage, given the position that they now face.

There is a massive focus on managing the pandemic and on how social care has responded to it. I offer the observation that, if matters were hard for IJBs and health and social care partnerships before the pandemic, they are much more difficult now.

I do not know whether Fraser McKinlay or Kathrine Sibbald wants to come in to amplify or add evidence to those points.

10:30

Fraser McKinlay: Progress has been made in recent years on, for example, governance and, as Elma Murray just said, medium-term financial planning. There is more to do, for sure, and I think that we will have better position on the financial stability of integration joint boards when we finalise this year's audit work.

Given the scale of the challenge that we have had to face in the past six months, I have heard a lot of good stuff around how bodies in health, local government and the third sector are working together, and I think that that applies to integration joint boards, too. Like many things, part of the trick will be trying to learn the lessons, capturing the stuff that has been good and building on it, and getting around some of the governance challenges that we know that there have been in lots of IJBs.

There are grounds for optimism, but I would not underestimate the size of the challenge.

Alexander Stewart: That identifies the seriousness of the problem and also what we are trying to do. It would be useful to know whether councils are well-positioned with regard to partnership. Previously, many of them were trying to come together with other organisations in order to streamline their operations in the interests of their medium and long-term finances. Do you think that some of those effective partnerships might suffer as a result of the Covid-19 pandemic?

Elma Murray: Again, I will highlight what we are hearing—these are not issues that we have audited at this stage. My impression is that the depth and strength of partnership working has improved during the past six months, as organisations have had a huge imperative to work differently and to come together to find innovative solutions.

I will give you a well-known example. A lot of councils and their partners have created community hubs to enable services to come together to provide the most effective support for people who have been shielding, people who require support with food deliveries and key workers who need help with organising childcare and so on. A lot of that happened with real speed. My impression is that that partnership working has grown and is better. We would like that to continue to grow and to be strengthened.

Alexander Stewart: In your report, you give a progress update on the national performance framework indicators, and you mention that some of them have worsened or have stalled. Why has that happened? How will Covid-19 affect the indicators?

Elma Murray: For a number of years, with the local government benchmarking framework—not so much with the NPF indicators—there has been year-on-year improvement across councils. However, we are starting to see a plateau. Councils have made a lot of changes and have managed to improve what they are doing but, due to the depth, seriousness and breadth of the impact of Covid-19, there will be a need to rethink what is being done. Your questions about partnership are important, because that rethink will not be done solely by councils; it will need to be done in co-operation with others.

Kathrine Sibbald or Fraser McKinlay might want to say something more about that.

Kathrine Sibbald: I will reinforce what Elma Murray said. What we have seen over recent years—from 2013-14 onwards—has broadly indicated a positive direction of travel, with the local government benchmarking framework statistics showing a positive trend. In the past

year, however, there has been a stalling, or, indeed, a decline, in some performance indicators. As for drawing a conclusion as to what has caused that, it is difficult to pinpoint exactly what that has been about, but we have set out the range of challenges over time at the front of our report. I would anticipate that a lot of different challenges have all been contributing this past year, with indicators showing a pause or a decline in the LGBF data.

The Convener: Andy Wightman is struggling to get through—his connection is poor—so he has asked me to ask a number of questions for him.

Ring-fenced funding has increased from £1 billion to £1.5 billion, which is now 14 per cent of council funding. Last year, it had increased from 6.6 per cent to 12.1 per cent. Is that a cause for concern, given the need for flexibility and adaptability?

Elma Murray: I will pass that question straight to my colleague Fraser McKinlay, as he will have more depth of knowledge on the detail than I will.

Fraser McKinlay: No pressure there.

I am not sure that I have much more detail, and I do not suppose that it is for us to say whether that is a problem, but it is a feature, for sure. Over recent years, there has been a bit of debate about what is ring fenced and what is not ring fenced. It is fair to say that we have always taken a middle road. The Government would probably have a smaller number, and COSLA has had a bigger number for what is ring fenced for the purposes of flexibility.

Mr Wightman's point is a good one. Flexibility to spend money locally will be important in the coming months and years. Touching briefly on the previous discussion, we already know that Covid is really bad news for inequalities. We know that it is not affecting everyone in the same way and that there are some communities in some parts of society that are being more heavily and more badly impacted by Covid than others are. That will vary across local authority areas. Returning to the earlier discussion with Ms Boyack, I think that that needs to be part of the conversation around the fiscal framework and the settlement between the Scottish Government and local government.

I do not think that anyone would say that the 14 per cent of so-called ring-fenced money is going on things that are bad things to do—that is not necessarily the debate—but there is a discussion to be had about the wider principle of how much local flexibility there is.

The Convener: I will turn now to Andy Wightman's second question. During budget scrutiny last year, Andy asked about the fiscal framework being developed by the Scottish

Government and COSLA. This is probably a question for Fraser McKinlay, who said that the Accounts Commission was not involved but would be happy to be if it was invited. Have you had any conversations with either party about that?

Fraser McKinlay: Not yet is the short answer. My sense is that that has been delayed by what has happened over the past six months. As I said last year, we stand ready to help and to be involved in those discussions, but no, we have not had any conversations yet.

The Convener: You discuss inequality in the overview report, highlighting North Ayrshire, which has a declining population but rising levels of deprivation and poverty and an ageing population. Given that the funding formula is still heavily weighted towards population, is there a need to revisit it in light of the circumstances?

Elma Murray: I guess that was why, in my introductory remarks, I pointed you to exhibit 2, on page 15. It demonstrates how the funding, deprivation and rurality can be shown in a diagram—if anything so important can be. That exhibit makes for some interesting reading. I will be a little provocative here—Fraser McKinlay will probably cringe. If I were the committee, going through its work in the coming months, I would be very mindful of what the diagram was telling me about where the money is going and whether we, as a country, are achieving the outcomes that we would like to see in addressing inequalities, poverty, deprivation and so on. I will stop there.

The Convener: Yes—I think that Fraser McKinlay is cringing enough.

I turn to the last question from Andy Wightman. The overview report discusses

“the need to do things differently”.

On pages 24 and 25, you say that

“more radical change is required”,

and that the recommendations that you make

“are becoming increasingly urgent.”

In view of Covid and Brexit, that recommendation is significant. Have you seen any indication that the need for radical change and urgency that you talk about is being addressed?

Elma Murray: That is a great question. My initial response is that, because of the speed with which councils and their partners have responded to Covid-19, there is evidence simply from looking at what they have done—without having to carry out an audit—to say that things can change, and can be done, very quickly when there is a significant imperative for that to happen. We will try to capture some of that in our work this year and our overview report next year. What are the

circumstances that enable that type of change to happen? It cannot always happen as the result of a massive pandemic. We need to identify the circumstances that allow it to happen speedily.

In setting up community hubs, moving thousands of people to work from home and collaborating with partners from the third and voluntary sectors as well as other public service bodies, councils have done tremendous work. That is important. To answer Andy Wightman's question on whether there is evidence in that regard and whether we can see potential for councils and bodies to do more of that, I think that the answer is yes, and I hope that we will be able to report on that more fully next year.

That brings me back to my earlier offer to have further conversations with the committee during its inquiry. We are gathering further insight and intelligence as we go about our work, and it would be good to discuss that with the committee as the issues become clearer. I do not know whether Fraser McKinlay wants to say anything further.

Fraser McKinlay: I will make a couple of brief points. I emphasise that what has been striking about the past six months is not so much that there have been brand-new innovations that no one has thought of before; the real difference has been the pace. I have spoken to colleagues in a council who, pre-Covid, spent 18 months trying to get a virtual contact centre set up, with all the governance and all the stuff that had to be gone through. During the pandemic, some of those centres were set up literally in the space of a week.

Of course, that brings risks in relation to controls and governance. The committee would expect us, as auditors, to be concerned about that aspect, and we will keep a close eye on it. Nevertheless, it demonstrates, as Elma Murray said, that all those things are possible.

We are currently doing some work on the Accounts Commission's behalf to look at digital in local government and how it is applied to services. We had that on the stocks anyway; we have changed the scope of the work slightly to try to capture what has happened in digital service delivery since the pandemic hit. We are planning to publish that work later in the year, and we would be delighted to speak to the committee about it when we do so.

The Convener: Is there any sign that councils have taken on board the good work that is being done so that they can try to create other circumstances in which it might happen? Councils and third sector organisations cannot work all the time at the speed that some of them are working at just now. They need a system in place so that, when they need to press the button, they can do

so and things can be done as quickly as they have been during the pandemic.

Elma Murray: We do not have evidence of that happening just now, but we are seeing early signs that there is a will to work towards it, which is positive.

The Convener: Thank you very much.

I will now bring in Annie Wells, with her first questions as a member of the committee.

10:45

Annie Wells: Thank you, convener.

My first question follows on from what we have just been discussing. To what extent were councils prepared for and able to respond to far greater numbers of their staff having to work from home? Were the skills, capacity and technology in place for many staff members before the outbreak of Covid-19 occurred?

Elma Murray: Councils moved very quickly, but they were all in different places on digital working before the outbreak started. Those that had already undertaken a lot of investment in the infrastructure that sits behind the scenes to allow such working to take place were able to move more quickly and to have more of their staff members up and running by working from home. Although councils' approaches have varied, it is fair to say that they have all moved with incredible speed. Even those that had not previously made the investment to enable digital working to happen were able to do so quickly. However, we definitely saw that those that had already done so were able to move with greater speed.

Annie Wells: That is encouraging. We have seen lots of evidence of that happening throughout the pandemic. All councils should be duly thanked for the pace at which they have handled the situation.

My other question is on the extent, if any, to which Covid has affected wider strategic planning, for example to address long-term aims such as tackling the gender pay gap.

Elma Murray: The Accounts Commission had already done a piece of work on the gender pay gap—or, at any rate, on equal pay. Earlier this year, we decided that, even though we were already in lockdown at that point, we would go ahead with publishing that report. We knew that councils would be concerned with managing their response to Covid and working on the recovery phase, but we wanted to ensure that they did not lose sight of that important matter. The issue of equal pay had been exercising councils for a long number of years.

At this stage, we have not done work specifically on the gender pay gap, but perhaps Fraser McKinlay or Kathrine Sibbald could remind me whether that is coming up—I cannot recall that offhand.

The Convener: Kathrine, do you wish to add anything?

Kathrine Sibbald: Fraser McKinlay is probably better placed to respond to that.

The Convener: Right. Fraser?

Fraser McKinlay: Convener, I am the last man standing, as usual.

The short answer is no—we do not have plans to do further work on equal pay or the gender pay gap. As Elma Murray said, we published an updated report on that issue earlier this year. However, it continues to be an important one, on which we will keep an eye in our audit work.

Ms Wells's wider point on longer-term strategic planning comes back to our earlier discussion on the impact of the pandemic on different sections of society. We know that that impact has not been consistent and that some members of our communities have been disproportionately affected. For example, the role of gender in economy and employment matters is an important issue. We have seen the impact on areas such as the social care sector, which has been significantly affected over the past six months and in which workers are predominantly women. The debate about what should happen in social care in the future will be hugely important.

Therefore the short answer is yes—councils are having to rethink their strategic priorities. Their focus will not necessarily change, but the focus on inequality will need to be even sharper than it has been until now.

Kenneth Gibson (Cunninghame North) (SNP): Good morning, panel. We have already touched on reserves and on the need for local authorities to carry out medium and long-term planning. However, for some time, local authorities, when it comes to settlements, have been encouraged to dip into their reserves. I have concerns that that could lead to local authorities being punished for their prudence. What is the panel's view of that? Do you believe that the way in which reserves are being treated could be a disincentive to long and medium-term planning?

Elma Murray: Thank you for that, Mr Gibson. It is very nice to see you here today, as I did in my previous job.

Kenneth Gibson: You are being very formal with "Mr Gibson".

Elma Murray: Yes, we are in public session, Mr Gibson.

Kenneth Gibson: Exactly.

Elma Murray: It is lovely to see you here today, Kenneth.

To reflect on your question, I refer you to some of the comments that we—particularly Fraser McKinlay—made earlier about the importance of having reserves; one of the reasons for having reserves is that they are for a rainy day, and if this is not a rainy day, who knows what that would look like?

It is also important to recognise that, although councils might be encouraged to use their reserves, that is a matter for individual councils to take a decision on, because their spend and how they use their money and reserves is for them to determine. That allows local models to be adopted to a degree. We have made the point that inequalities are worse in some parts of Scotland than in others, so there are opportunities for councils to give some thought to that as well. I will not comment on whether they might be penalised.

Fraser McKinlay: We spoke to the committee last year about the report that we published in December 2019—"Local government in Scotland: Financial overview 2018/19", which was the most recent lot of audited data that we have. At that point, 23 councils had reduced their general fund reserves in the previous three years. As I said earlier, that looked to us like the beginning of a trend, and we would expect that to increase—sharply this year, given what has happened. As I have said a couple of times, later in the year, we will be in a better position to see the picture across the board. However, Mr Gibson's point is well made; we are interested not just in whether reserves are being used but in the way in which they are being used and whether they are being used in a planned way, as opposed to councils, having to dip into their reserves at the end of the financial year. That distinction is important to us. The use of reserves needs to be part of a plan.

Kenneth Gibson: I know that you are cautious about dipping your toe into matters that might be construed as being political but, obviously, there is a concern in some local authorities that the Scottish Government might say that the settlement is £X, but that if you look across local government, you will see that the volume of reserves means that there is flexibility. That is why I mentioned earlier that prudence is not always rewarded, which militates against the incentive to have medium-term and long-term planning.

I will go on further before you respond. Paragraph 67 of the report says that if use of

"borrowing and reserves is not enough to meet the costs of the Scottish Government's response to the pandemic, further reprioritisation"

will be needed.

If local authorities are currently looking at reprioritisation, how significant do they anticipate it will be?

Elma Murray: That is a good question. If it is okay, I will pass that to Fraser McKinlay.

Fraser McKinlay: That is okay; thank you. I am scrolling down to find the reference that Mr Gibson gave. Reprioritisation will be important but, again, this comes back to the conversation that we had about flexibility. It is still the case that the vast bulk of councils' budgets is spent on education and social work—social care in its broadest sense. Given what has happened, that will continue, so the wriggle room for reprioritisation is tricky. As we look to recover and renew after the pandemic, it will be crucial to find ways in which local authorities can invest in their local economies.

As the convener mentioned earlier, that is where city and region deals will be critical, because councils will not be able to do that on their own—although councils are now in a better place than they have probably ever been to do that kind of work. The budget process is now pretty much an all-year-round process, and councils have a clear sense of their strategic priorities. Increasingly, many have not only medium-term but longer-term financial plans that cover five to 10 years, as we would have it. I do not underestimate how hard that will be, but the majority of councils are in a better place than they have been to allow that reprioritisation.

Kenneth Gibson: Obviously, there has been a significant increase in expenditure across all local authorities, but there have been some savings—for example, through local authority vehicles being used less often, offices not being open and so on. What work is being done on reconciliation, in order to get a true picture of the impact on local authorities of the pandemic and the response to it?

Elma Murray: You are right that there will be some savings. That will not be audited until next year, because the bulk of the costs that councils have incurred, where they have spent the money and where they have saved it have been happening this year. However, if budgets are adjusted mid-year to reflect the changes that have been made, we will pick that up as part of our local audit work, and will consider what it tells us. My sense is that the costs have far outweighed the savings, which have been at a much lower level, so they are not making much of a dent on the costs that councils have incurred. Fraser or Kathrine might like to say more on that.

Fraser McKinlay: I can chip in, here. I do not have the numbers to hand, but COSLA has been getting regular returns from councils that do exactly what Kenneth Gibson described. Each council submits to COSLA an assessment of the

additional costs and any savings that there might be to net those costs off. COSLA pulls all that together as part of the discussion with the Scottish Government. In one of the submissions to the committee, COSLA said that it reckoned that the net position was that there is still a shortfall of about £500 million. That includes savings that might have been made.

That is from memory, so I might not have the numbers quite right, but I confirm what the chair said: the assessment from councils is that the costs vastly outweigh any savings that might be made.

Kenneth Gibson: Paragraph 14 of your Covid-19 briefing says that

"The Scottish Government is required to maintain a balanced budget",

as we all know, and that that can be

"challenging because funding can fluctuate significantly within the year".

You talk about tax volatility and revenues declining while expenditure is increasing; Fraser McKinlay talked earlier about volatility and uncertainty. How can that situation be improved? For example, would additional borrowing powers for the Scottish Government assist?

Elma Murray: That is a matter for the Scottish Government to take forward and is not something on which I would proffer an opinion. We have talked quite a lot today about volatility and what councils are managing. Fraser—do you want to embellish anything that I have said?

Fraser McKinlay: No. I have just managed to catch up and realise that Mr Gibson was referring to the Covid-19 briefing that we published last week, so I now have that reference.

As the chair said, it is not for us to comment on whether there should be more powers, but we can say that the fiscal framework was due to be reviewed next year anyway. I think that everyone would agree that it was not designed with the current situation in mind, so there is no doubt that there is a discussion to be had about how it works, including what that means for the relationship between the Scottish Government and local government, which is a point that I made earlier.

Kenneth Gibson: Okay. To be honest, I did not think that I would get the response that I was hoping for on that last question, but never mind; one has to try.

North Ayrshire Council was mentioned earlier, but "Local Government Finance: Facts and Figures 2013-14 to 2020-21", which was published by the Scottish Parliament information centre on 24 June, shows that despite the squeeze on local authority funding, three local authorities had real-terms increases over that period. For example, North Ayrshire Council had a £41 per head real-

terms increase, East Ayrshire Council had a £5 per head increase and Aberdeenshire Council had a £1 per head increase. However, all other local authorities had reductions. What is the Accounts Commission's view of how the resources have been spread? There is some variation in expenditure per capita and in how it has changed over the past seven years.

11:00

Elma Murray: I do not want to be repetitive, but on how the funding is distributed and how the committee wants to consider its business in terms of what it would be looking to achieve in relation to working with the Government as it sets its budget in the future, I refer the committee again to exhibit 2 on page 15 of the report, which gives a picture of how all that currently plays out. It is not for me to open the can and ask the questions that that picture might allow, but I think that the committee might find it helpful to refer to it.

Kenneth Gibson: Thank you. That is helpful. It is important to put on the record my comment about what an excellent job North Ayrshire Council has done in responding to the pandemic.

Sarah Boyack: I will follow up on Kenny Gibson's question about Scottish Government borrowing. Some councils have an appetite for being able to borrow, but that is part of the wider issue of long-term local decision making. Can the witnesses reflect on the potential conflict between Scottish Government priorities and councils' autonomy? What scope do councils have for revenue raising, particularly given that the workplace parking and tourist levies have been delayed? What long-term balance should there be between councils having agency to make their own decisions and the Scottish Government's requirements?

Elma Murray: I will draw, to an extent, on my previous experience.

Councils have powers to borrow, as long as they do it within a financial framework. Speaking from the practical perspective of having considered that in my previous job, I was always balancing the impact of borrowing with what that would do to the revenue budget, which deals with day-to-day services. Councils must always balance the things that need to be done day to day with the things that they want to invest in for the medium term to long term that would help the day-to-day things.

That involves a complex set of criteria, which is why things such as options appraisals are important for councils, because they allow councils to have a good think about how they will strike that balance. Aligning that with medium-term to long-term financial planning allows them to work out how they can make that affordable, and smooth

out the peaks and troughs that some funding decisions might cause.

As far as I can see, there are mixed views across Scotland on councils' revenue raising, but not on whether they should have the powers to do it, because local government will always seek as many devolved powers as it can get. It is more about what kind of revenue raising is possible in different areas of the country.

Again, I will give a local example. Obviously, as a country we have been looking at a tourist tax. However, when I was the chief executive of North Ayrshire Council, hotels in Arran were already regularly adding an extra £1 to their prices to allow them to invest in local tourism on the island. That had been in place for a number of years and was part of their approach to tourism on the island.

As I said, there are differences in what is happening around Scotland in that regard. It is hard to think of a one-size-fits-all solution. Fraser McKinley can comment on some of the matters that I have been addressing and on some wider aspects related to Ms Boyack's question.

Fraser McKinley: I mentioned earlier that COSLA and SOLACE recently made to the Finance and Constitution Committee a written submission that sets out clearly what local government's expectations would be around a local fiscal framework, including local taxation. As part of the debate towards the end of last year, we spoke to that committee about whether non-domestic rates should be devolved to local government. COSLA's position is that it would like that to happen, but needs it to be done in the round and in full consideration of the entire fiscal framework and all the levers that councils might have. I make no comment on whether COSLA's submission is good, bad or indifferent, but it is the clearest proposition that I have seen to date, and I hope that it will provide the basis for the discussion that we mentioned earlier.

Sarah Boyack: Thank you. That is helpful in the context of councils having less autonomy and agency to make some of the decisions. The impact of the pandemic naturally requires them to spend more money on areas for which they had not budgeted, while not having the capacity to maximise their income.

The Convener: That completes our questions and concludes this session. I thank the Accounts Commission for taking part in this useful session, and I thank the witnesses again for their attendance.

That concludes the public part of the meeting.

11:07

Meeting continued in private until 11:17.

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