



OFFICIAL REPORT
AITHISG OIFIGEIL

DRAFT

Local Government, Housing and Planning Committee

Tuesday 1 October 2024

Session 6



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LOCAL GOVERNMENT, HOUSING AND PLANNING COMMITTEE
26th Meeting 2024, Session 6

CONVENER

*Ariane Burgess (Highlands and Islands) (Green)

DEPUTY CONVENER

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

COMMITTEE MEMBERS

*Miles Briggs (Lothian) (Con)

*Pam Gosal (West Scotland) (Con)

*Mark Griffin (Central Scotland) (Lab)

*Fulton MacGregor (Coatbridge and Chryston) (SNP)

Emma Roddick (Highlands and Islands) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Professor David Heald (University of Glasgow)

Bill Howat (Mercat Group)

Alison Payne (Reform Scotland)

Collette Stevenson (East Kilbride) (SNP) (Committee Substitute)

Keith Yates (Mercat Group)

CLERK TO THE COMMITTEE

Euan Donald

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Local Government, Housing and Planning Committee

Tuesday 1 October 2024

[The Convener opened the meeting at 09:30]

Interests

The Convener (Ariane Burgess): Good morning, and welcome to the 26th meeting in 2024 of the Local Government, Housing and Planning Committee. Pam Gosal and Fulton MacGregor join us remotely. I remind all members and witnesses to ensure that their devices are on silent.

I welcome Collette Stevenson to her first meeting of the committee and invite her to declare any relevant interests.

Collette Stevenson (East Kilbride) (SNP): Good morning, convener. It is lovely to be here. I have no interests to declare.

The Convener: Thank you very much, and thank you for substituting for Emma Roddick this morning.

Decision on Taking Business in Private

09:31

The Convener: The second item on our agenda is to decide whether to take in private items 4 and 5. Do members agree to take those items in private?

Members *indicated agreement.*

Pre-budget Scrutiny 2025-26

09:31

The Convener: Our next item is to take evidence as part of our pre-budget scrutiny for 2025-26. We are joined by Professor David Heald, who is emeritus professor in the Adam Smith business school at the University of Glasgow; Bill Howat and Keith Yates, who are members of the Mercat group; and Alison Payne, who is research director at Reform Scotland. I welcome the witnesses to the meeting.

We turn to questions. We will try to direct our questions to specific witnesses when possible. However, if you would like to come in, please indicate that to me or the clerks. There is no need for you to operate your microphones, as that will be done for you—that is one less thing to think about while you are being asked questions. We have about 90 minutes for the discussion.

I will start with a broad framing question for all of you. We would be interested in your views on how the forthcoming budget process and local government settlement could do more to empower local democracy and ensure that communities get the services that they need. That is a big question to start off with. Who would like to start?

Professor David Heald (University of Glasgow): In the absence of anybody else coming in, I will start. We should not become too concerned about just the current budget process. The basic problem is a much broader issue about the governance of Scotland concerning both spending and tax. The most obvious such issue is the decline of the role of local government in Scotland.

The most glaring point is about council tax, which is now ridiculous, as it is based on 1991 values. We are in a very strange position because, 25 years into devolution, due to the way in which the funding system for Scottish public spending has gone, income tax for certain groups is considerably higher in Scotland than it is in England, whereas it appears that council tax is significantly lower. There has been a switch from property taxation to income taxation, but most economists would argue that, if anything, the direction should be different.

My experience of giving evidence to committees of the Parliament is that members are pretty clear on what has to be done about those issues but that nobody dares move. The fact that there is a cycle of United Kingdom parliamentary elections, Scottish parliamentary elections and council elections means that elections are always on people's horizon.

We need to think about where we want the system to be in five or 10 years, because the great danger is that many fixes that were probably intended for the short term will accumulate and become permanent.

The Convener: That is an interesting perspective. I believe that the Government's council tax review group is looking at that, which might be a start. However, going by the expressions on some of your faces, maybe we will not hold our breath on that.

Bill Howat (Mercat Group): I recall something called the Burt report in 2006, so I do not know why the Government has a review group—the topic has pretty much been covered, as far as I am concerned.

I endorse everything that David Heald said. We should declare an interest, because he and I go back a very long way—this is not the first time that we have been sat together to do things. Everything that he said is absolutely right.

However, to answer your specific question—I am sure that you would like a nice brief answer—on how the committee can best contribute to improving local government and, indeed, council services, I suggest that you use paragraphs 23 to 26 of part 1 of our submission as the opening section of your evidence, because that basically says what David Heald said. The Mercat group has been looking at the issue for a long time.

In the short term, I recognise—as, I think, you will—that your budget process is set and limited because, at the end of the day, the Scottish Government gets a block grant in the same way as councils get a revenue support grant.

On the best thing that you can do at the moment, I will give a very simple answer. The Scottish Government should honour the Verity house agreement, in the first instance.

Alison Payne (Reform Scotland): To carry on with the consensus, I completely agree with everything that has been said. If you want to give local communities a stronger voice, you need to give local government a stronger voice. You need to reform local government. As was said in previous discussions, local government needs to be empowered far more and council tax needs to be reformed. All those big things need to be done.

The problem is that there is always an election coming up. There needs to be a far better longer-term look at how we do things, rather than politicians thinking, "Well, we've got an election coming up and we don't want to risk upsetting the voters." There has been too much of that. There needs to be a bit more work with the public to explain in a cross-party way that decisions need to

be made and that we need to make those changes.

We also need to explain the importance of local government. Turnout and participation in local government elections perhaps suggest that we do not value it as much as we should, and I am not sure that there is as good an understanding as there should be of how crucial it is that the local services that communities rely on are delivered by local authorities. However, local authorities should not just be the delivery arm of central Government.

One line in the programme for government states:

“A national approach, locally delivered”.

That is not necessarily the right way to think about it. We should do things differently in local areas to best meet the needs of local communities. That helps to give local communities a voice, whereas doing the same thing all over the country negates that voice.

The Convener: You picked up on an interesting point about the “national approach, locally delivered” idea being in the PFG. We talked about that a couple of years ago, at the beginning of the Verity house agreement. We said that we would try to move away from that delivery arm approach. I will not dig into anything about the Verity house agreement because colleagues have questions on that, but it was a good point.

What is your sense of the impact of the levels of capital funding on the state of existing infrastructure and of how they are meeting requirements relating to housing and net zero? We are in a time of restricted capital resources, so how should councils prioritise their capital spend?

Bill Howat: As we said in our written submission, that matter is for people who are in the field at the moment. To be honest, we are the old dinosaurs, who look at it from afar. However, from my experience—I am sure that Keith Yates will come in to support me and give more examples—over the years, and particularly since best value was introduced, councils in general have developed a series of ways of taking hard decisions.

For the capital programme of my council—which I have been out of for nearly 20 years—we had a well-developed system of prioritisation. We agreed a set of principles and a scoring system, we produced a blank anonymised report in which councillors scored the various capital projects that were deemed to be fit for the corporate strategy, and we then had a full council session in which the scores were revealed and the programme was debated. What most surprised officers and councillors about that process—remember that my council was an independent council; it was non-

political—was the amount of consensus that emerged from the initial scoring round. Such processes exist within councils.

If we are, indeed, talking about honouring what Donald Dewar originally said about devolution and what the Verity house agreement, the McIntosh report and various other reports have recommended over the years about empowering people at a local level, it should be left to people at the local level to develop their own ways of identifying their priorities.

Keith Yates, I do not know what your system was in Stirling, but that is a broad outline of what we did in Comhairle nan Eilean Siar.

Keith Yates (Mercat Group): Not just in Stirling but back before 1996—when regional and district councils were operating—when we were devising and settling a capital programme, most of the key players, including those involved in water, sewerage, roads, education, estates and finance, were around the table. The reorganisation in 1996 was supposedly about bringing together two levels of authorities—regional and district—to become unitary authorities. There is nothing wrong with that in principle, but the irony was that, after that reorganisation, a lot of local authority services disappeared into what I could call Quangoland. There are 113 quangos in Scotland at the moment.

When you are dealing with the capital programme, it is a lot more difficult to settle on what the priorities are, because you are dependent on outside organisations to deliver some of the key infrastructure that is required. Year after year, capital programmes not just for housing but across all services are delayed, and a large part of that is down to what Bill Howat identified in the submission as the “minestrone” of different organisations all trying to play the game. They all have different sets of priorities, many of them coming from a Scottish level. Understandably, the local authority sets priorities, which go down the line to a particular organisation, but that does not necessarily square with what happens in the local authority. One of the reasons for the persistent delays in capital spending is the failure to have things integrated in the way that they were—not fully, but to a greater extent—prior to 1996.

I remind the committee that, until 1996, local government in Scotland spent approximately 42 per cent of all public expenditure; the figure is now about 28 or 29 per cent. There have been delays in capital programmes partly because services have been taken out and partly because the settlement for local government has been worse than that for major services such as the health service, funding for which has grown immensely during that period.

Austerity bites in Scotland just as it does across the rest of the UK and, as we are dependent on that system, that has impacted heavily on local government. The capital spending issue is not just about what figures go out. It is more complex than that. It is about the networking between the organisations that should work together to deliver.

The Convener: Thank you for those perspectives.

Alison Payne: We did not look at that question in detail, but I echo what Jo Armstrong said last week about the challenges of dealing with existing assets while trying to develop new ones. That is a really important point in relation to the preventative side of things, as there are two pulling priorities.

Professor Heald: There is a broader issue about the way in which UK Governments cut capital budgets when there is a fiscal squeeze. There is a great temptation to cut capital spending and to protect existing services and jobs. That very much happened at the time of the global financial crisis, and it has continued since. Under the previous UK Government, future capital programmes were cut back, which had an effect on Scotland through the Barnett formula and the capital departmental expenditure limit that the Scottish Government gets.

When I was preparing for this evidence session, I noticed the extent to which local authorities are doing more of their own borrowing. The Scottish Government's capital grant is lower, and local authorities are doing more borrowing.

09:45

A question about the financial sustainability of local authorities was asked. We have to be careful to distinguish between the aggregate Scottish level—whether the system as a whole looks sustainable—and the position of individual local authorities. The Scottish Parliament information centre briefing for this meeting is very informative about levels in Scotland as a whole and about the variation in the position of councils in relation to their debt per head and the proportion of their revenue budgets that will pay debt interest. The committee has to think about both the aggregate Scottish level and the individual council level.

The Scottish Government and the Scottish Parliament have to engage with their UK counterparts. If the UK Government reacts to its fiscal inheritance with further cuts in capital budgets, that will spiral down the system. You cannot plan sensibly for capital spending year to year; you need a framework for five or 10 years ahead.

Another important issue relates to the fact that delivery of capital expenditure in the British public

sector is very poor. There is evidence that costs are considerably higher in the UK than they are in comparable European countries. My view is that one reason for high costs, delays and disruption in capital programmes is that, when the private sector gears up to bid for contracts, it establishes its workforce and a certain flow of contracts, but then the pipeline stops and that capacity deteriorates, so when the Government wants to have more capital expenditure, you have to go through the cycle again.

The Convener: You talked about the need to plan ahead over five to 10 years, which sounds like a pipeline. How do we get there? Is that a UK Government-level decision?

Professor Heald: In essence, it has to come from the UK level in the first place. From giving evidence to committees of the Parliament over the years, I know that everybody agrees that there should be multiyear planning. The spending review system, which was set up in the late 1990s, encapsulated the idea that there should be multiyear spending plans. However, more recently, partly for political reasons and partly because of economic circumstances, spending reviews have often been for one year, and sometimes there have not been spending reviews covering future years, so such decisions basically have to come down from the UK Government originally. The UK Government has to commit itself to spending reviews, one of which is supposedly coming next spring. The Scottish Government could then give multiyear figures for local government, public bodies and the third sector. Everybody says that they want multiyear planning but, unless that is put in place for the system as a whole, it will never happen.

The Convener: So it gets triggered at the UK level.

I move on to local authority debt. Professor Heald, I will get a sense from you first and then go to others if they want to come in. Do you think that the £1 billion increase in local authority debt between 2021-22 and 2022-23 gives rise to sustainability concerns? At what point does council borrowing become a problem? As you pointed out, councils have increased their level of borrowing in recent years.

Professor Heald: At this point, I will make the comparison between Scotland and England. In Scotland, local authorities have big problems, but they basically relate to resource shortage. The problems in England are quite different. The local audit system collapsed in England after the abolition of the Audit Commission and district audit. Scotland, Wales and Northern Ireland did not do the same things and do not have comparable problems. Local authorities in Scotland have a generally good record of getting

their accounts out and of having unqualified accounts, although that is not to be complacent about the fact that there are certain delays at some councils.

The other point to make about England is that a small number of councils, which are now very prominent in the news, invested in commercial property developments, encouraged, to an extent, by the UK Government at the time. Those investments went sour, which has very much affected the environment in which English local authorities work.

Scotland is very different in that sense. It does not have those problems. Where there is some comparability relates to the question of historical equal pay claims, with some councils selling and leasing back facilities in order to be able to pay equal pay claims. That is one common feature of councils in, say, Glasgow and Birmingham.

Bill Howat: I will pick up on the point about single status, which was agreed around the time that I became a chief executive. To highlight the point that Professor Heald made about having to think through capital programmes and expenditure, one of my biggest criticisms when I made the move from being a central civil servant—interestingly, my final job was making capital allocations in the local government division—to becoming a chief executive was the amount of legislation that came through that said, “This has no resource implications.” That is not true—every single piece of legislation has some kind of resource implication, even if it is only that your lawyers have to crawl all over it to work out what it means. It might be as simple as that, although that is very seldom the case.

Single status was a classic illustration of a national policy that was worked through but which nobody anywhere thought through properly. I do not dispute it; it was a perfectly good thing. It went through the courts, and as public sector employers, we were grateful for it. That is a good example of what Professor Heald says is happening all the way down through the capital planning process. I realise that that is not a capital planning issue, but I raise it as a policy development issue, which is what we are really talking about. If you do not look over the horizon and think a policy through properly, you do not see the consequences.

On Alison Payne’s point, you need to pick up on what will happen at the community level and get feedback about what it actually means on the ground. The difference for me, as a civil servant moving from the Scottish Government to the third-smallest council in Scotland, the poorest council in Scotland and an independent council, was quite dramatic. It is important that we recognise that one size does not fit all.

The Convener: That is certainly the case.

Alison Payne: Councils’ hands are tied on debt. There are hugely increasing demands for services and there is a cost of living crisis, and councils are firefighting crises. At the same time, there is a council tax freeze and a growing inability to increase revenue from any other sources. Councils are also attempting to consider prevention.

If the situation continues, debt levels will rise and the financial sustainability of councils will get worse, or much-needed community-based services will implode and will no longer be there. There is a perfect storm, and it needs intervention.

The Convener: You mentioned the council tax freeze, so I bring in Pam Gosal, who is interested in that area.

Pam Gosal (West Scotland) (Con): Good morning. It is the Mercat group’s view that the Scottish Government’s decision to freeze council tax had an impact on the financial sustainability of councils. I ask the witnesses to explain that statement. Local authority executives expressed concerns to me—I have met with 31 councils—that the freeze pushed their budgets to the limit. What would be the impact on local government finances if a similar policy were to be pursued next year?

Bill Howat: I confess that I am struggling to think through what you said. Our statement was that we did not think that the council tax freeze itself had a great impact on sustainability, because it has been in place for many years, it was probably well factored in and the financial effects were mitigated to some degree. However, there is no doubt that the imposition of the freeze in complete breach of the Verity house agreement is, as we said in our submission, just revisiting the past. That is exactly what happened to Neil McIntosh’s report in 1999: fine words followed by actions that do not comply with them.

Alison Payne and David Heald have already picked up on what will happen. I reinforce one point that David Heald made, which is also made forcibly in the Local Government Information Unit paper. The impact of freezing council tax for 10 or 12 years is that you have, in effect, reduced the tax base. When the councils are given freedom to start increasing it, they start from a base that is 10 to 12 years out of date—it is reduced. The long-term impact of that is that, as David Heald vividly demonstrated in his opening statement, we transfer the tax burden from local to central Government and, therefore, on to the general levels of income tax.

We are also missing out on lots of other possibilities. Not all of them are relevant to every area of Scotland, but councils do not have the

freedom to take advantage of the things that they can do.

I will finish with a little anecdote. In the past few years, my old council area suddenly developed a cruise liner facility, which has made a huge change to its small economy. However, that is heavily dependent on tourism and world trade and has a big impact on the infrastructure on the island. Why cannot the Western Isles and other areas that have cruise ship facilities be given the facility to charge the people who come on to land?

I should explain that I have just come off a cruise, so I have witnessed at first hand how several thousand people arrive in a place, all climb on buses, run around and look at the countryside, the city or wherever they are and then get back on the cruise ship because everything is paid for. They will not spend money when they go ashore, but the buses are still there congesting the cities. That is a little anecdote, just to illustrate what I am trying to say.

I hope that I have addressed the question, but I confess that, in the way that you framed it, I was a bit unclear about what you have taken from the statement in our submission. Does that help?

Pam Gosal: It does. Thank you.

Professor Heald: One of the effects of nine years of council tax freeze has been to diminish the proportion of local authority spending that is raised by council tax, which is the main tax that local authorities have.

I have already made positive reference to the SPICe briefing that has been done for the committee. That should be followed up by trying to establish data on the comparability of council tax in Scotland and England.

Over the past month, I have heard two different comparisons made, which illustrates how difficult making comparisons is. The first was made by Ivan McKee, the Minister for Public Finance, on "Any Questions". He said that council tax is, on average, £350 less in Scotland than it is in England. Kenneth Gibson, the chair of the Parliament's Finance and Public Administration Committee, said last week that band D council tax is £700 less in Scotland than it is in England. Those comparisons are problematic because the structure of the property market in Scotland is quite different from that in England and band D in Scotland is a different level of valuation from band D in England. Houses in band D in Scotland would not be in band D in England.

Getting together systematic data on comparisons would help to illustrate my point that we have an unplanned shift from property taxation to income taxation. I am on the public record as saying that the divergence of income tax from the

rest of the UK has probably reached its limit. If the Scottish Parliament wants more resources, property taxation will have to be looked at.

10:00

I chaired a Royal Society of Edinburgh working party that submitted evidence to the Scottish Government on the question of tweaking council tax bands. I commend that advice paper to the committee as a suggestion of the way forward with council tax change.

I emphasise the point that, if there is going to be a council tax revaluation, the Parliament will have to be very clear about whether it is about redistributing the tax burden more appropriately because the 1991 values are ridiculously out of date, or whether it is intended to generate more revenue. The political presentation of the policy should establish clearly whether the idea is to get more revenue or just to rebalance who pays council tax.

One of most remarkable things about the past 35 years is the shift of economic prosperity from the west of Scotland to the east. In broad terms, property in the east of Scotland is undervalued while property in the west of Scotland is overvalued.

Alison Payne: We disagree with the council tax freeze and would disagree if there was any suggestion of another council tax freeze. There is something about the public perception of a council tax freeze, in that telling people that their council tax will be frozen is a good thing that they like to hear. However, they do not necessarily understand that freezing the council tax will have a detrimental impact on local services overall. They hear a message from the Scottish Government about its council tax freeze, but it is the local authorities that deliver the services.

There would be some disquiet and outrage if Westminster tried to impose a freeze on the Scottish rate of income tax. Such a thing would not make sense, but it would be exactly the same because one tier of government would be trying to control and exert power over what is supposed to be a local tax. Should one local authority want to put up taxes and justify to its electorate why it is doing that, it should be perfectly entitled to do so.

There is a disconnect. People are paying property rates from the 1990s. It is not a great statement about 25 years of devolution that we have a council tax freeze that nobody seems to like, is wildly discredited and is seen as regressive, but we have been completely unable to change or reform council tax. It cannot be beyond the wit of the Scottish Parliament and devolution to fix the problem.

Yes, there are review groups, but we have had them before, and we have had local authority committees before. In our evidence, we quoted the Local Government Committee of 2002, which said that it wanted to see local government finance shift from an 80:20 split to more of a 50:50 split. We are going backwards, not forwards. We are nowhere near 50:50 and we want to see more movement in that direction.

Keith Yates: I have a quick point. When people pay council tax, they are also paying Scottish water rates. Most members of the public do not recognise that Scottish Water is a different organisation. Since 1996, when the system began to operate in that way, it has grown immensely at the same time as, for many years, council tax has been frozen. That might be another effect of splitting and creating new organisations that benefit from the councils doing the collecting—and the council tax is collected very efficiently for the most part. All the previous comments have highlighted what is wrong with the council tax, and it is worth remembering that Scottish Water rates are also included.

Pam Gosal: I thank the witnesses for their responses. I have one more question. Last week, the Local Government Information Unit told us that ring fencing is a particular issue for Scottish local government. Should the Scottish Government continue with ring fencing in this year's local government settlement?

Bill Howat: I never liked ring fencing, either as a civil servant or as a council chief executive.

Your question picks up on the point that Alison Payne just made about one tier of Government imposing its will on another. One of the lessons of the past 25 years is that it is time to examine not only local authorities but the way in which Scotland is governed and the relationships within that. The Parliament should be strategic and, if the Government wants to be a Government, it should be a Government and not an Administration. I do not think that I can put it in simpler terms. I answer the question that arises from the Layfield report in that manner: a 50:50 split does not even get near what I think should happen. However, how we take that forward is an entirely different matter.

What do you think, Keith?

Keith Yates: This is about local communities. One of the effects of ring fencing is that councils do not have the flexibility to spend in ways that represent local priorities. That is not just about the council itself; it is about all the communities who deserve the opportunity to have their priorities set.

Since ring fencing increased, too many communities find that their ability to spend is limited. Across Scotland, we have some really good examples of development trusts that have

done some amazing things. They have often received Scottish Government grants to do that. However, there is much more potential. Perhaps this is looking ahead a bit, but there are now many more people who work from home, work in their communities, network in their communities and understand the local issues. They ought to be given the opportunity to take decisions at a more local level than the local authority.

That takes us back to Bill Howat's comment about what Donald Dewar said. When the Scottish Parliament was set up, Donald Dewar talked about devolution not just coming to Holyrood from Westminster but passing down to local authorities or to the lowest level where decisions could be taken. Ring fencing is one of the ways in which that is going in the opposite direction. I would love to see 1,000 flowers being allowed to bloom in local communities across Scotland by giving people that opportunity.

Collette Stevenson: Good morning. I will flip your comments on ring fencing round a wee bit.

Professor Heald, you touched on reckless decisions that have been made in some local authorities—more so, as you mentioned, down south. Recently, I asked a Government-initiated question on reserves in each local authority. Some of the reserves that are held at local authority level are particularly significant. Will you comment on that?

Professor Heald: First, my reference to reckless behaviour related to England, not to Scotland. Despite the difficulties to which we have pointed, the Scottish local government system has been better governed than the English one. Because of the Accounts Commission, Audit Scotland and the Scottish Government itself, the English behaviour has not been repeated in Scotland and the auditing system has not collapsed.

On the point about reserves, I found the SPICE briefing paper really helpful—I have made that point several times. One has to be careful about reserves. I find it difficult to understand the data that I have seen. I understand the difference between unusable reserves and usable reserves. An example of unusable reserves would be revaluation of property, which is, in essence, an accounting transaction.

On the usable reserves, there is a distinction between the earmarked reserves and the unearmarked reserves. The Accounts Commission and the Convention of Scottish Local Authorities have pointed to the importance of the relatively small number of usable unearmarked reserves across Scotland as a whole, which is very much differentiated by local authorities.

However, that raises the question of what “earmarked” means. Earmarked could mean that you have a legal or contractual obligation to spend the money in a particular way. It could also mean that the chief executive or the director of finance of the council has decided to put some money aside. The US is fond of talking about rainy-day funds to deal with particular problems. One of my questions about the variation across councils would be to what extent is it a classification issue. Are people classifying things differently, or does it reflect genuine difference?

The SPICe briefing shows very big differences in the reported usable reserves across councils. It is important not just to concentrate on the Scotland level but to think about what happens across the 32 councils.

Collette Stevenson: Would anyone else like to come in on that?

Bill Howat: Am I allowed to make a slightly light-hearted response?

Collette Stevenson: Yes.

Bill Howat: You must have heard the tale of the chair sitting in on the appointment of a new director of finance. As it gets to the end, he asks each of the candidates, “What is two plus two?” The first three candidates say, “Four”, and the next candidate says, “What do you want it to be?” It is a little joke from the accountancy world. It is told at dinners—I am sure that it is old hat. However, it illustrates Professor Heald’s point about how we classify things. If a chief executive or director of finance gives advice to the council, and the council takes a view that something is going to happen in five years’ time, when do they start putting that into their budgets? It will vary.

My other little anecdote—I mean this in a light-hearted sense; I do not know whether any members of the media are here—is about one of the horrors I found when I became a council chief executive: the annual trailing in the red tops when the reserve figures were published. It usually happened in late April or May, and we were always castigated for having huge reserves. Why was that? I have been inside central and local government, and I can tell you why. Central Government, coming to the end of its financial year, offloads all its spare cash as fast as it can to all the agencies. Here we get to another point that you need to think about very carefully when you are dealing with any of this: the incentive. If you are sitting in a central Government department doling out grants and it is getting to the end of the year, and you find that you are heading for an underspend, you want to get that money out the door. Why? Because if you have an underspend this year, you will not get that money next year. That is the kind of game that goes on inside the

system. I am not giving away any secrets here, by the way—we all know that that goes on.

The consequence was that when we closed our books at the end of every financial year, we had reserves. A lot of reserves, to pick up Professor Heald’s point, varied greatly from council to council, but a lot, though not all, was money that had been shunted out. It was money in advance of need, which really should not happen, as you are probably well aware. However, it does, because that is the incentive in the system. I hope that that elaborates on some of the difficulties that Professor Heald spoke about more eloquently than I have done.

I thought that the SPICe briefing was very good. I noticed that the Accounts Commission says that it is going to have a look at the issue and try to give greater clarity on what is usable and unusable and what is contingency and so on.

The Convener: I bring in Fulton MacGregor, who also joins us online. He has a number of questions.

Fulton MacGregor (Coatbridge and Chryston) (SNP): Thank you very much, convener. I had a wee problem with unmuteing, which I think was my fault, not those controlling the system.

I want to ask about an issue that gets a lot of media attention every year: the pay settlement for the local government workforce. The statistics that we have say that local government employment amounts to around 70 per cent of revenue budgets. What needs to happen for pay deals to be managed more sustainably and strategically next year and moving forward?

As I am not in the room, I am happy for the convener to call those who wish to answer that and in what order.

The Convener: Who wants to come in on that one?

10:15

Alison Payne: I will answer it. That is another huge financial issue that local authorities face, but it is part of the broader issue of their financial sustainability, and it cannot be viewed separately from the bigger issues of where they are getting their money from, their sustainability, council tax, local government finance as a whole and the general discussion about the responsibilities and powers of local authorities, which others have mentioned.

If something is a local government responsibility, local authorities have to have the powers and responsibilities to address it. We would not necessarily look at each individual

issue, but we should look at all the issues strategically, as part of a bigger issue that includes paid settlements, social care problems, greater need and demand, a growing number of vulnerable individuals and the various other problems that are coming our way, including the fact that our demographics are changing. All those issues impact in different ways on local government finance and, as I said, rather than looking at each individual issue, people need to stand back and take a strategic view of all the problems that are faced, so that they can think about what needs to be done.

There needs to be a far greater discussion about the responsibilities of local authorities, how our system of governance works and how we can ensure that local authorities are able to meet the fiscal demands that those responsibilities place on them.

The Convener: Are there any other views on the demands of local government workforce settlements?

Keith Yates: We also need to look at what has happened to the local government workforce over the years. The 70 per cent figure is perhaps less important than the fact that, because pay settlements going back 10 or 15 years have been below the rate of inflation, it has become increasingly difficult to attract key professional staff into local government, and, at the same time, most local authorities have managed to make redundant by various mechanisms a tranche of people who have taken away with them the institutional memory of the local authority.

Over the past 10 years or so, I have done quite a bit of work mentoring and coaching directors and chief executives. One thing that is apparent from those discussions is that management structures—it is unusual to say this—are too tight in local government now. You have people managing vast swathes of services without necessarily having the necessary experience of the service or the people below them—who have the experience—to be able to manage effectively.

It is interesting to note that many of the national organisations—some of which we loosely call quangos, which we discussed earlier—have managed to retain many of their staff while local government has been dispensing with its staff.

The 70 per cent figure is not an unreasonable amount, and the real issue for the future is whether local government can afford to tighten further its structures in delivering the services that are needed.

Fulton MacGregor: I thank the witnesses for those answers.

Professor Heald, you said in your written submission that the equalisation methods that are used to distribute funding mean that Scotland is not realising the full benefit of the funds. Will you expand a wee bit on that, and say what could be done in this year's budget to address the issue?

Professor Heald: There has been a long-term shift away from having full resource equalisation across Scotland. To go back to a point that I made earlier, lots of short-term measures have become permanent. The idea of an equalisation system on resources is that each council should have the ability to deliver a comparable level of service to its population. However, the way in which the system has operated means that that is no longer the case, and that some councils operate above that level. That becomes important when we talk about any change to councils' tax powers—either council tax or other taxes—because, clearly, some new taxes would generate a lot more revenue in some local authority areas than in others.

Let me take a realistic example: the tourist tax. It will generate more money in Edinburgh and the Highlands than it will in certain parts of the west of Scotland. However, my understanding is that there will be some provision in the grant system to compensate for the transient visitor population. When you get a new tax, you get two problems. First, some councils will get much more per head from that new tax than others. Secondly, if there has been any compensation for having different positions in the past, will the grant system change in turn?

If there were a council tax revaluation, my expectation would be that the individual and total values in the east would tend to go up and those in the west would tend to go down. What would happen to the grant system as a consequence? Any council tax revaluation or additional tax for local authorities must, at the same time, include consideration of the operation of the broader finance system.

Bill Howat: Perhaps I can give you a lesson from the past. I am sorry for doing so—I said earlier that we are the dinosaurs, so we have long memories.

If Greig Liddell and the SPICe team want to dig back far enough to the 1996 reorganisation of local government, they will find that quite a few councils took umbrage at the distribution settlement at that time. It was all done in a two-year exercise, and led to what was called the mismatch councils. Do you remember them, Keith?

Keith Yates: My council was not one of them.

Bill Howat: My memory is that, after those two years and once everybody had pressed the button

on the revised model, less than half a per cent of the total was moved around.

When you move into the kind of system that David Heald has just described, you have to consider a large number of variables. You have primary and secondary indicators and all sorts of things like that—I am glad that I am out of it now, to be honest. I see that the adviser is nodding—he must be remembering it, too. It is complicated, but David Heald is absolutely right.

Let me throw this philosophical question out at you. Is it such a bad thing that, at some appropriate level, you have different levels of taxation and that some places that have the ability to raise taxes get a little more than others? Are we going to go down the line of saying, “It’s all national”? Going back to Fulton MacGregor’s earlier question, I also think that pay is an issue. Most councils are signed up to national pay agreements. Is that really totally appropriate? I just raise the question, and I am glad that I am not around to answer it.

The Convener: We will take those questions on board and see what we can do. I note, though, the comments that were made earlier about the desire for decisions to be made at the most local level, and that is the direction of travel, in the good words of Donald Dewar. Perhaps an answer lies in there.

We move on to financial sustainability and different income-raising options, and I invite Willie Coffey to start us off.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I want to turn back briefly to the issue of financial sustainability to try to compare and contrast what happened in England with what could—if it were possible—happen in Scotland. We have already referred to some of the reckless behaviours down south that led to the situation there, but do you think that that recklessness came about as a result of the general power of competence being granted to England’s local authorities? I know that we do not have that power in Scotland—I am going to ask you in a minute whether you think that we should—but do you think that the situation came about as a result of councils investing in the private sector and so on and running up huge debts? We heard some spectacular examples last week of how badly it all went, but what caused it? Was it the devolution of the general power of competence?

Keith Yates: I am not sure. If we are arguing that local government should have more responsibility and more powers, that will be consistent with what has happened down south. The question, then, is this: once it is given those responsibilities, can the local authority use them effectively? It all comes back to trust in local

government, and you have only to look at the Scottish household survey to realise that that trust has diminished. Indeed, it has diminished almost as fast as satisfaction levels with the Scottish Parliament, according to recent surveys.

One of the questions that we must consider, then, is whether it is wrong that such decisions can be made, if they can then be checked by the local democracy. I am sure that, in the authorities that David Heald has talked about, what has happened will lead to significant changes in voting patterns in the future and in the operation of those authorities. The fact that things have gone too far is very unfortunate, but we live in difficult times. As for your basic question, I am sorry, but I cannot really say whether the devolution of competence is at the height of this.

Willie Coffey: Do you have a view, Professor Heald?

Professor Heald: I am not sure about the direct answer to your question about the power of general competence. My understanding is that such a power does not exist in Scotland, but it did in England—it was part of the localism agenda of Eric Pickles when he was the Secretary of State for Communities and Local Government in England.

Essentially, the point of the measure was to massively cut local authorities’ resources and to tell them to be entrepreneurial. It was also linked to the two-tier structure in England, with the district councils that had relatively few functions and quite small budgets. The behaviour that I was describing as reckless was going to the Public Works Loans Board, which is part of the Treasury, and borrowing money at sub-private-market rates to invest in property, sometimes in the authorities’ own jurisdictions and sometimes elsewhere.

The reason why things got so out of control was that district audit and the Audit Commission had been abolished. I think that, if the reporting mechanisms that existed in the 2000s had existed in the 2010s, the problems would have been identified much quicker, because the Audit Commission would have produced reports about the vulnerability of those councils. The point that I tried to make in my opening remarks is that there are big differences between the situation in Scotland and that in England. The commonality is the resource shortage and the competing demands that local authorities face.

Where I think that I differ from the Mercat group evidence is that I am probably more centralist than it is. The point about councils such as Woking or Thurrock is that UK local authorities and public bodies cannot go bankrupt; there is no market mechanism in that respect. If a private company—like Carillion, say—goes bankrupt, the

shareholders lose their money. As for a public body such as a local authority going bankrupt, it is very unlikely that the UK or Scottish Government would let that happen, as it would damage the credit rating and the reputation of those Governments and other local authorities.

The question, then, is this: if a council such as Woking or Thurrock undertakes reckless investments and loses large amounts of money, what happens next? The Liberal Democrats have now taken control of Woking from the Conservatives. Do you shut down all the local services in Woking? That is not a practical proposition. My view is that there has to be proper governance at the central level, but the question is how you get that governance to be proportionate.

Willie Coffey: That was a really fascinating response. I would suggest that there have been similar examples in Scotland over the years. This is where the word “brokerage” comes into play; colleges got brokerage when they had some deficits, as did national health service boards over the years. Perhaps those are smaller examples of stepping in to resolve issues so that you do not fail to deliver services.

10:30

Last week, we also heard about the abolishing of the Audit Commission and that story of failure, Professor Heald. However, we are also aware that internal audit did not disappear and vanish overnight. Councils such as Woking, which racked up a £2 billion deficit, must have had internal audit scrutiny of what they were doing. Either that was roundly ignored or no one was on the ball.

If we in Scotland decide to do something like what you suggest—devolve power and fiscal responsibility to our local administrations—are we at risk of ending up in the same place as Woking? Could that happen? We can call it a power of general competence if you like, or we could call it something else such as devolving further powers to local government. How do we in Scotland protect ourselves against the outcomes that happened in places such as Woking?

Professor Heald: I have probably already answered that point. I believe that the UK and Scottish Governments have responsibilities for the public sector as a whole. Local authorities will therefore operate within a set of constraints. That is simply because, in practical terms, neither the UK Government nor the Scottish Government can afford for their public bodies to go bust. There is no mechanism in either country for public bodies to go bust in the sense in which that happens in the private sector.

Alison Payne: As we have said, powers have been sucked up from local authorities. They used

to have more powers. Quite a few of us would like to see powers beyond just the council tax being devolved to local authorities; however, they previously had proper control of the council tax. Through ring fencing and council tax freezes, powers have been removed, as they have in other areas of responsibility.

Local authorities in Scotland used to have greater financial controls. It would be fantastic to get towards a 50:50 split, but going back to where we were in 2002 would still be an improvement over where we are now. We are talking about the risks of a system, but we used to have such a system in place, so that would not be brand new.

Again, it is about trust. Checks and balances are needed. However, I certainly challenge the idea that we cannot devolve powers because councils might make bad decisions. Unfortunately, and although I disagree with them, Westminster politicians have made the same comments about decisions that have been made by this Parliament.

This is about democracy and localisation—that is, it is about making sure that there are checks and balances and that there is a proper system of governance, while recognising that, if we are to have proper local services that take account of differing needs, we need those powers to be controlled locally. Not doing that involves risk. There are risks both ways—there are the risks that you talked about, but what about the risks to communities that will not get access to the services that they need?

Willie Coffey: Are you saying that Scottish councils should have the powers that Woking Borough Council had?

Alison Payne: We certainly want far more permissive powers to be given to local authorities, yes.

Bill Howat: Both Alison Payne and David Heald have made the important points. You are absolutely right to identify that risk. There is risk no matter what happens. However, as David has outlined, provided that the correct checks and balances are in place, due process can be followed. “Due process” is an important phrase.

However, I suggest that the way to look at the issue is to come at it from an entirely different perspective. We in the Mercat group argue that, rather than getting hung up on current powers and systems, we need to stand back, look at the principles of how we want Scotland to be governed and, more important, how we want public services to be delivered. The kind of risk that you have identified can then be handled in a proper way.

We have argued that a good starting point would be to go back to the Wheatley report,

because we think that its basic principles stand the test of time. They would have to be applied to the current system, but I think that even the extracts that we have provided in our submission help to answer your question. It is all about words such as “accountability”, and about taking decisions at the lowest possible level, consistent with democratic and financial accountability.

The more important point, though, is that, yes, these are risks, but they have to be considered within a much wider debate and context about how we want to govern Scotland.

Willie Coffey: I suppose that the checks and balances are probably the key to it—

Professor Heald: Can I just come back in? I would not want local authorities to become property investors in other jurisdictions. First of all, they are not diversified, as a private property developer would be. Secondly, English councils were getting access to Public Works Loans Board finance at below market rates, so there was unfair competition against the private sector.

The other point that I wish to make is that local elections are largely not fought on local matters, but are very much dominated by UK-level or Scotland-level issues. As a result, the accountability mechanism that some people argue clearly exists between electors and their local councils is flawed by the way in which local elections have become national contests of popularity, and by turnout.

I very much want to see Scotland governed better. That would involve more powers for local authorities, but there are limits on how far one would want to go.

Keith Yates: I slightly disagree with David Heald on the issue. When I was a chief executive, I used to analyse the election results at the local level—that is, the council elections. I hesitate to say this, but it was very apparent that a good councillor who was working very hard in their community inevitably did better than the councillor who was not working at the same level. I think that David is right that, at a general level, the results have reflected some national trends, but there was a huge discrepancy at the local level that came down to councillors’ ability and performance in their locality, which counted for a lot. We ought not to dismiss that, because, to my mind, it is an important part of local democracy. The fact is that people tend to know their local councillors better, because they represent a smaller community.

Willie Coffey: As I was saying, the checks and balances issue that you have all mentioned is probably the key to protecting against those outcomes. We will all agree that the principle of devolving as much power as we can is sound, but that the checks and balances—such as we have in

Scotland, with the Accounts Commission and internal audit—seem, for some reason that we do not know, to have deserted our colleagues in places such as Woking in quite a stark manner. Is that a positive note on which to finish our conversation?

Professor Heald: I have more confidence in external audit, when it is done properly, than I have in internal audit. Internal audit is too vulnerable to management pressure.

Willie Coffey: I presume that there is evidence of that in Woking.

The Convener: I should perhaps make us a little bit aware of the time. We are a little over halfway through our questions. I think that we will be fine, but it would be great if we could keep our questions and answers a bit more succinct. I have to say, though, that we are having a very rich discussion.

I am going to bring in Collette Stevenson next, then Pam Gosal and Mark Griffin.

Collette Stevenson: What challenges and opportunities will arise at local authority level from the ending of private finance initiative contracts for schools? Do you want to come in on that, Bill?

Bill Howat: Let me go back a bit to when PFIs, then what became public-private partnerships, were first developed. The theory was that, when the contract came to an end, the council would be sitting on a spanking, up-to-date, wonderful asset and would have a revenue stream to spend on lots of other things, including maintenance of the asset. Roll forward 25 years, with a financial crisis, 15 years of austerity and all the rest of it, and—as you have heard from us today and, I am sure, from every other witness and submission that you have had—the reality is that local government is facing a very different climate. That is point number 1.

Point number 2 is that my direct experience was in the Western Isles and it was not a happy one. As I understand it, the Scottish Government spent several hundred thousand pounds on consultants to try to work something out that would fit the model. To go back to Willie Coffey’s important point, compliance with financial strictures and conditions in order to hit certain debt targets has been a symptom across the UK Government and, probably, other Governments for the past 30 years.

I do not know how many of you remember Gordon Brown’s efforts to lower the public sector debt, because we were aspiring to join the euro at that time—halcyon days. That was one of the reasons why the PFI became the PPP. I will be quite brutal about it: behind the scenes, I told my council that it was bending the rules to create something in the Western Isles. When we did the

financial analysis, we forecast that there would be a financial black hole in year 13—if I remember correctly—of a 38-year contract.

I cannot speak for other councils. That is the one PPP that I was deeply involved with and I was very unhappy about it. At the end of the day, my councillors had a very good collective mind; it was one of the great privileges of my life to sit on my council and watch politicians interact with one another and reach a collective view. They were very good at that, and I am sure that that is true of other councils. My councillors were given the best advice that we could give them and they took it because it was the only game in town.

All that is based on my experience and the reading that I have done; I have a little bibliography for you, if you would like to follow it up. There is a book called “Bean Counters: The Triumph of the Accountants and How They Broke Capitalism”. The author’s name is Richard—his surname escapes me at the moment but he is the financial journalist for *Private Eye*. He spells out in detail the whole sorry saga of PFI, the financial crisis, Lehman and so on. It is all laid out in stark detail and it goes back to the point that Willie Coffey and you made earlier about what happens when we classify things in certain ways, and what happens when someone goes to the director of finance and says, “What is 2+2?” and the answer is, “What do you want it to be?”

That might not be a helpful answer. I am not in the system any more and I cannot speak for the people who are looking at this, but I do know that the chief executives and directors of finance and all the people who are responsible for the schools and all the other things will be looking over the horizon to a time when the contracts run out. As I said, in theory, 25 or 30 years ago, that should have meant that the council suddenly had to pay £2 million or £3 million. If I remember rightly, in my case, the final year’s payment would have been £3.8 million and, at the time, the Western Isles budget was only £120 million. Councils were therefore looking at 3 per cent of their revenue funding being made available to them 30 years down the line, but I suspect that is not going to be the case.

Collette Stevenson: That is really helpful. I will certainly look up that book.

Bill Howat: I will try to remember the author’s name and speak to you at the end of the meeting.

Professor Heald: It is Richard Brooks.

Bill Howat: You are quite right.

Collette Stevenson: Okay. That is lovely.

Professor Heald, would you like to comment on PFI?

Professor Heald: PFI is a very big topic, given the time constraints that we are under.

The issue that is arising is the upcoming handing back of the schools. It will happen quite soon in Falkirk and will happen in about seven years in Glasgow. One of the big issues with that will be what happens with maintenance. People will tell you privately that maintenance in PFI schools is better than maintenance in council-owned schools, because councils are vulnerable to budget cutbacks. The question will be what happens to the quality of maintenance of PFI schools after the hand back.

Collette Stevenson: Thank you.

Pam Gosal: Thank you, convener. Last week, it became public knowledge that the UK Government had opposed the £70 million rural growth deal for Argyll and Bute, which leaves it being the only part of Scotland without such a deal in place. The deal was of great importance to Argyll and Bute because it included housing, developments and facilities for business and tourism. What impact might the pausing of the deal have on the area? What steps do witnesses suggest the Scottish Government should take to mitigate that?

The Convener: Who wants to have a go at that one? Bill?

10:45

Bill Howat: I will let Keith Yates come in after me. Keith was chief executive of Stirling Council, which many people forget has a very large rural hinterland, so he is quite used to rural issues. Obviously, I was chief executive of the Western Isles Council, so I am familiar with issues such as are faced by Argyll and Bute.

We were asked to be brief, so I will be very brief. I thought that what the UK Government did with the initiative was outrageous and contradicts all the things that we have been arguing about people being left to do what they are doing. In effect, post-Brexit, the then Prime Minister—I am not going to use his name—reinvented the European structural funds, but branded them as UK funds. I was amazed to see simple things such as the requirement for flags to be flown at projects and signs to be put up, which was the very thing the Conservative Administration railed against in the 1990s. I should say that I used to be head of the European structural funds division in the Scottish Office, so I have direct knowledge of that.

As for the effect that pausing the deal will have on the area, I suspect that it will have the same effect as such action would have on anyone who was developing a complex project for a rural area. If their major funding source is pulled from them,

what do they do? They have done all the development work, so they go back to the drawing board, take all that work forward and go somewhere else and find other ways of raising the money. What can the Scottish Government do? The simple thing to do would be to give Argyll and Bute the money, but we have all heard the evidence that that will not be easy.

The alternative is to take a longer-term view; maybe when the committee reports and the budget settlement comes out, we will find alternative ways of dealing with capital issues.

The only point on the horizon that might be bright for everyone is that, if I read the *Financial Times* correctly—David Heald will be more up to date on that than I am—the current UK Chancellor of the Exchequer seems to be talking about bending the rules again. Maybe the capital tap will reopen, but if it does we can bet that it will come with a series of constraints and limitations.

Keith Yates: I have a quick comment on Argyll. When I worked in Strathclyde, I was responsible for European funding in the early 1990s. One of the great things then was that the European commissioners and senior officers loved coming to Argyll and making funding available for Argyll. We could always phone up and get them to come across, and several million pounds would come at the end of that. I do not think that that happens with the UK or even the Scottish Government, because there are so many other issues to deal with. One of the real benefits of belonging to the European Union was the ability to generate additional funds, which has obviously disappeared.

Mark Griffin (Central Scotland) (Lab): A Local Government Information Unit representative appeared before the committee last week, and he talked about the need for councils to have a “basket” of taxes and a range of income-raising measures.

I will ask all the witnesses for your views on tax-raising powers that you think should be devolved to local authorities. We have touched on the balance between local authority funding and an aspiration to go 50:50, but how does Scotland compare with comparator nations when it comes to the balance between funding raised locally and funding raised nationally for council services?

Alison Payne: We certainly agree with the Local Government Information Unit. We want to see a basket of taxes, but we have also said that councils should not have to come cap in hand to the Scottish Government. Whether it is about the tourist tax or other measures, local authorities should have more permissible powers to develop schemes that work for their area—for example, in relation to cruise ships. It is about how they can

raise money locally and address their needs. There should be a basket of taxes, and local authorities should have the permissible powers to develop what works for their area.

You touched on the evidence from the Local Government Information Unit. What struck a chord with me was the mention of the difference in the silos of the budget and

“a negative relationship between health and social care.” — [Official Report, Local Government, Housing and Planning Committee, 24 September 2024; c 34.]

That is an important issue when we are looking at the basket of taxes and spending. We need to do a lot more in social care, which is a local government responsibility. The more we do in social care, the more money we save in the health service, but that is a different budget. We need to look, in the round, at how we can encourage more tax powers and more responsibility but, equally, we need to recognise that the relationship between healthcare and social care is a problem.

We want to encourage local authorities to spend money in those areas, but the savings are found not in their budgets but in the Scottish Government’s budget. If they do not spend, there is a cost to another part of the overall budget. There needs to be greater awareness of that.

Professor Heald: The most important issue is reform of council tax, which is a big revenue raiser. Non-domestic rates are no longer a local tax. They are basically a national tax that is distributed as a grant, and I do not see that changing.

There might be areas at the margins where local authorities could get more taxes. The tourist tax has been mentioned; I do not know anything about cruise ship taxes. There have been attempts to suggest things that are local taxes. For example, I have heard proposals for a wealth tax being raised locally because that would bypass the legislative restrictions on this Parliament’s powers. I suspect that the UK Government would challenge that in the courts.

Reforming the system that we have is the most important priority. Council tax is now in a mess and, although a residential property tax is an important way to fund local government, it will take a long time to recover from the damage that has been done.

Bill Howat: My view is that we should not be talking about what taxes local authorities should or should not raise. What we should do is put forward a set of proposals with basic principles, then allow the public body to put forward its suggestions for additional things that it would get.

Some parts of Scotland want to raise a tourist tax—we should let them argue their case. We

should set up an overall scrutiny panel and—I hope that you will excuse me—I do not think that politicians should be on it. It is a matter of taxation efficiency and effectiveness.

To pick up Willie Coffey's earlier point, I think that politicians should certainly be the checks and balances and ensure accountability. The Accounts Commission, for example, could be the body that says, "Yes—okay, you've convinced us that you're going to act responsibly and that this tax is relevant." On David Heald's point, that should be fed into the grant equalisation system so that no councils have an unfair advantage over other councils.

I emphasise that this is not a Mercat group view—Keith Yates might have a different view. My view is that the way forward is not to sit here and legislate for councils to raise individual taxes, but rather to let councils and other public bodies argue that they should be allowed to put a levy on something, if they want to do so. That is the best way of engaging local communities.

Keith Yates: One of the interesting developments in recent years has been at community level, in relation to wind and solar farms. Communities are getting a regular income as a result of having allowed them to be built on land that belongs to the community, through an agreement with the company that is setting up the wind or solar farm.

That raises a question about land or development tax. To go back to the beginning of my career, when the Land Commission was proposed in 1968 it was perceived as a mechanism whereby, when planning permissions were given for developments, whether housing or commercial, a tax could be taken. That could be directed towards local government in order that it got the benefits of paying for the infrastructure that would be required to allow the development to take place. It strikes me that there is perhaps an occasion to look again at the possibility of a land development tax as a way forward.

David Heald has already made the point that property tax is probably the simplest and most reasonable way of bringing in more money, but that could be allied to examination of a land development tax. As we all know, every time planning permission is given there is a huge uplift in the value of the land. An awful lot of land banking takes place: we should remember that when we talk about planning delays or blame the lack of house building on planning alone. Equally, with regard to land banking decisions, private developers—not rightly, but understandably—wish to ensure that market conditions are right before they develop, so they might keep land for five, 10 or 15 years.

Moreover, as I mentioned right at the beginning, any development depends on various infrastructure providers coming in at the right time, so that activity has to be integrated and co-ordinated more effectively. That is not happening because local government does not have the strength that it had in earlier years, when it had more of that responsibility.

Alison Payne: It is important that any new or reformative taxes are properly locally controlled. The one time when Parliament came close to replacing the council tax was with a supposedly local income tax that would, in fact, have been centrally set. There is a danger of passing on additional tax powers that are still centrally controlled and centrally set; ensuring that any such taxes are locally controlled and locally set will be key.

Mark Griffin: I have another question that I think is primarily for Alison Payne. Can you give us more information on the social bridging finance that you mention in your submission, how it has been used elsewhere and what it could achieve here?

Alison Payne: A clear challenge facing local authorities is how to manage crisis while still looking at the prevention side. I think that that is the case across the whole public sector. We have a cost of living crisis, so the funding that is available is being used for firefighting and we are not investing in the preventative schemes that are hugely needed and which everybody since Christie seems to agree we should be doing.

We are suggesting that, if there is a limit on resources, you look at whether there are different ways of doing things. We have pointed to social impact investing and social bridging finance as schemes that could be considered as ways of trying to invest in, pilot and analyse effective early intervention and prevention methods. In our evidence, we refer to MCR Pathways in Glasgow, which looks at educational outcomes.

The key point about the bridging finance model is that it involves philanthropic money working with the third sector and a public sector delivery partner, but with a contract that says that, should all the set outcomes be met, it will be picked up by the local authorities. The risk, therefore, is on the philanthropic side in putting up the initial investment—but it will be picked up. There are other impact investing models in which the investment is paid back, either with or without interest.

There are means of doing this through looking at and trying out different schemes and, at least, getting things up and running on the ground. We are saying that we have to find some way of finding resource. There are different models and it

is for different local authorities to find what works for them. MCR Pathways is based in Glasgow, and the key aspect in that example has been the contract and ensuring that the outcomes were met. It is all about looking at outcomes and delivery in that way.

Mark Griffin: I have another question, convener, but I do not know whether you want me to ask it at the end.

The Convener: I will bring you in at the end, Mark.

We move on to the issue of public service reform, although I know that we have already started to touch on that, and the Verity house agreement. I will bring in Miles Briggs, to be followed by Colette Stevenson and Mark Griffin.

Miles Briggs (Lothian) (Con): Yes, we come to the easy topic of public service reform. The Accounts Commission has stated that

“councils ... urgently need to transform how they deliver services to become financially sustainable.”

How, in your opinion, should councils be looking to change how they deliver services? What opportunities does local government have to reduce costs and improve efficiency that it has not already looked at over the past number of years? Moreover, how can the Scottish Government actively support that transformation? As I have said, it is an easy topic.

The Convener: Who wants to pick that up? Miles, I think that you should just pick somebody.

Miles Briggs: I will start with Alison Payne. Bill Howat has been thrown in at the deep end a few times this morning already.

11:00

Alison Payne: Clearly, the Accounts Commission has already touched on a lot of those things, and I definitely think that there are different ways of doing this sort of thing.

One area that we have been looking at is the tech side and what can be done with data and administration across the public sector. We should not have 32 different information technology systems, and we should not, for example, have a situation in which occupational therapists have access to different data, depending on whether they work for the local authority or the health board. Our public computer and digitalisation services are completely all over the place, which leads to inefficiencies and links to other things. However, people have been aware of the issue for some time now, and it seems, like council tax reform, to have been parked as being too difficult.

There is definitely a role for the Scottish Government to look at this issue, too. We should

not be developing 32 different—or better—ways of providing IT, and we should not have 32 councils and 14 health boards doing it either, not to mention the myriad general practitioners underneath all of them who have their own IT systems, too.

Things have been done. I am thinking, for example, of the NHS app that is widely used by most of the population in England—though not by us—and which links up local authorities and the health service. There are things that we can learn from elsewhere, too. We do not need to reinvent the wheel in Scotland as far as IT is concerned.

In short, there are definite possibilities on the tech side, and work on that can be led more centrally. Again, there needs to be bottom-up delivery, but some things can be offered by the centre.

Miles Briggs: I know that the sharing of resources, co-location and so on are happening in many council areas, and Police Scotland has been looking at some of that, too. It is all about bringing your infrastructure together and looking at the associated costs. I just wonder whether the councils that Keith Yates and Bill Howat were associated with ever did that. If so, was it more about improving services, or was it just a way of making savings?

Keith Yates: I can give you two examples that might help. In 2007, I think, or 2008, we set up an experiment for island authorities such as Orkney and Shetland—Orkney was the example that we used—to see whether we could have common human resources, IT and finance facilities. In those areas, the colleges, the health board, the police and various other bodies were all operating separately. When we set up the pilot, we identified that several million pounds of savings could be made just by having that sort of single model. We were ready to go, but it was all scuppered because the health board did not want to put its system in with the others. I highlight that as an example of those occasions where there has been a willingness, very often on the part of the local authorities, to go into this wider set of issues, but most of the other organisations have been less willing and are happy sitting where they are.

In Stirling, for example, we worked very closely with the police and had a common contact centre where all the queries came in. When the police disappeared, it was decided that the contact centre would be put elsewhere. We all know what happened to the two people who died in their car near Stirling; had that come to the local contact centre, the people there would have known what was going on. This is all about having better public services and not about making efficiencies.

The main area where you can begin to get efficiencies is by looking at different public sector organisations and seeing that savings can be made by bringing things back to what I would prefer to see: a local democratically accountable system in which far more services are managed at local level. As for what Alison Payne has said about IT and so on—yes, there are savings to be made there, but a lot has been done on that over the past 10 or 15 years. In fact, it has gone too far in some areas. What is missing is the quality and the number of people needed to deliver the best public services, whether that be in social care or, indeed, road engineers, who have disappeared because we do not have the money to pay for such things nowadays.

Miles Briggs: I have a question in relation to the Christie commission report. As a committee, we have discussed its recommendations—and the changes in how local authorities operate that have come out of them—in many areas of our work, especially in relation to how local authorities are able to move towards a preventative model. Do you have any examples of that? Were the principles of Christie taken on board or not? That perhaps comes down to the difficulty of making the shift to prevention, because you do not have a separate budget to do that work.

Alison Payne: As we said in our evidence, the danger relates to the preventative stuff always being first for a budget cut. Quite often, the most effective preventative stuff is delivered by third sector partners, who are at the front line for cuts, as we have seen in the news coverage about councils' struggles with their budgets.

Politicians all seem to agree—we have had 13 years of their saying how brilliant Christie is. However, Christie has not been properly implemented, because we are firefighting. That firefighting tends to be done by Government agencies and bodies, whereas a lot of the best preventative stuff is done through the third sector and social enterprises, who are the ones on the front line for cuts.

Miles Briggs: Does anyone else want to add anything?

Bill Howat: Can I be bit mischievous? If you really want to make an impact, stop calling it the national health service and call it the national sickness service, and call councils and third sectors the health service. If you go back in history—I am sorry, I am being a dinosaur but that is because I am a dinosaur now—and check when the greatest advances in health happened, you will see that they were in the 19th century. How did that happen? Municipalities invested in drains, water and sewage systems and in the provision of public health, which is another Cinderella service.

Alison Payne is absolutely right that those are the services that are most at discretion. They are the ones that have the least apparent impact, because you invest in a sewage system, for example, that will run for 50 or 60 years. However, in the first 15 years, you can get rid of malaria, cholera, tuberculosis and all sorts of things. You just have to look at the issue from the other end of the telescope and see a different way of doing things.

We are putting all our money into keeping people alive for longer, but we are increasing the amount of time that they are sick. You will have seen those statistics—I am sure that SPICE and others will have presented them to you. We are letting people live longer but a bigger percentage of their time is spent in the national health service. Call it the national sickness service and start from a different perspective: stop people getting in there in the first place by investing in public health. That will make a big difference.

I also want to say—sorry, this is one of the little bees in my bonnet—that, if we want to reform public services, we need to watch our language. It is not about reforming local government or local authorities; it is about reviewing and resetting how we deliver public services and recognising all the interactions.

I am going off on a rant now, so I will stop.

Miles Briggs: I was about to ask about your views on the integration of health and social care, but perhaps that is going too far. [*Laughter.*]

Finally—this is my million-dollar question—how would you like to see the Verity house agreement taken forward? We have touched on the council tax freeze, which was thrown into the conversation when the ink was not even dry on the agreement. Do witnesses have any views on why it is taking so long to implement or on what could be useful to take forward the fiscal framework between the Government and local authorities on the principles that are set out in the agreement?

Alison Payne: The principles are fine. As we said in our written evidence, although the Verity house agreement, in and of itself, is worthy, it is just words. The problem is that we cannot separate Verity house from what happened with the council tax freeze that followed. That did not seem to abide by the ideas in the agreement of respect, working together and collaboration.

The key ideas about tackling poverty, delivering person-centred services and the transition to net zero are good and worthy principles, but the Christie commission could be here in 10 years' time talking about why the Verity house agreement has not been implemented. It requires action and something from the Scottish Government to show how it is working. I quoted that line from the

programme for government about local authorities being the delivery arm of Government; I am not sure that it links well to the Verity house agreement.

Bill Howat: I endorse that, and add the McIntosh report from 1999, which got exactly the same treatment. “Parity of esteem” was the phrase that came out of that one, which everybody talked about. Nothing came from it.

The point about any agreement is that, unless there is some kind of sanction or somebody you can go to for a judgment—the courts or whatever—it is a matter of trust. As we said in our submission, and as, I think, everyone else has said, it was fine to sign the Verity house agreement, but to follow it up so quickly by doing something that was so clearly in breach of it broke trust. If you do not have trust, you do not have respect, so where do you go next? What is the point in signing an agreement with somebody who is liable to break it within weeks? Ask yourself that question and you get to the nub of the issue.

That is why we say that you need to get something that stands. We need to build cross-party political consensus—better still, consensus across Scotland—that where we are sitting at the moment is not good and that we need to do something about that. We use the word “reset” about public services, and we need to keep it as general as that to get the process started. We can then move into the detail.

Miles Briggs: We have heard a lot about consensus on allowing councils to do their own thing. On the flipside, most people do not accept a postcode lottery—most politicians in this room will have used that phrase in discussions about all portfolios that we have worked on. Do you all think that, because local decision making is more important, it is absolutely fine that we should have a postcode lottery?

Alison Payne: I challenge that. It is not a postcode lottery. If there is electoral accountability, there is no postcode lottery; if it is controlled centrally and you have no say over it, it is then a postcode lottery. If councils choose to deliver services differently and you can vote for your councillors and make your views known at the ballot box, that is not a lottery. In the same way, there is no postcode lottery across the UK on higher educational funding, simply because different Administrations have taken a different view. That is not what I would define as a postcode lottery—just to be difficult.

Miles Briggs: What if I used the phrase “variation in services” instead? [*Laughter.*]

Does anyone else want to add anything?

Bill Howat: You are getting right back to the question that the Layfield report posed on whether you want local administration or local government. Go back to the Wheatley report and see what the principles for local government are—we have summarised them for you in our submission. That is a choice that we must make as a society. It is not one that you can make as a Parliament—you might think that you can, but, if you make the wrong choice, you will suffer. That is the point that Alison Payne has made; that is what democratic accountability is about. That is why we, as the Mercat group, have reached the view that the only way of taking the matter forward is not to leave it as a party-political thing to get beaten about—that will come, no doubt, as it does when any legislation comes forward.

That is what happened to Wheatley. If you read the story of Wheatley, you will note that the report set out a good set of principles and recommendations, which got into Parliament, where they got mangled. By the way, I originally used the word “mangled” in our submission, but my colleagues made me change it. I am using that word now: it got mangled, because of electoral considerations—that is the reality of life.

If we can at least get a conversation going and a set of principles started, the big choice then is for the Scottish Parliament—I use the name with care, because it is not for the Scottish Government to choose—to set out what it thinks is an appropriate level of government.

I go back to Willie Coffey’s point about checks and balances. If you have the checks and balances, you can allow discretion. There is no simple choice between local delivery and local administration; some balance will exist between those two, but the current model is definitely wrong and is not working.

Keith Yates: To pick up on Bill Howat’s point about Wheatley, I note that the report said:

“Local government should bring the people into the process of reaching decisions as much as possible, and enable those decisions to be made intelligible to the people.”

In the discussions that we have had today, we have talked about local government, central Government relationships and so on, but the question is whether there is a need for a more direct form of democracy in which people are really engaged. If we are talking about doing something to look at the whole governance of Scotland, would allowing things to process through something such as a citizens assembly—with due respect to the Scottish Parliament, the usual process is to bring in the great and good, which would include the Parliament—be an important way forward? Is it not time that we took advantage of some of the new mechanisms that have been

introduced effectively in countries such as Ireland in order to tackle what is a very big issue?

11:15

The Convener: I believe that various organisations, such as the Electoral Reform Society, are working on citizens assemblies.

Collette Stevenson: The committee has heard about the importance of localism—you have touched on that briefly—and place-based budgets, and there has been discussion on the range of services that could be provided by councils. Will you set out your views on those issues? Having been a councillor, I have worked on participatory budgeting and 20-minute neighbourhoods. I am keen to hear your views on those issues.

Keith Yates: Sorry—could I just establish the main point of the question?

Collette Stevenson: I suppose that it is down to the local government view on localism.

Keith Yates: I have always thought that localism—if it can be defined—is absolutely crucial in local government. It is about going down to the most local level that is appropriate. In the councils in which I have worked, I have always understood that, when you engage in the most appropriate level, you begin to get debate, collaboration and, maybe, opposing views coming together. Often, such things are missing when you try to do things at too high a level. You do not get that rich undercurrent of knowledge, or the networking that takes place at the local level.

A fantastic example is a wind farm that was put up in one community in the Stirling area. That community included a couple of engineers who had worked elsewhere in the United Kingdom, and when the company came in they asked whether it was possible to have an extra wind turbine for the benefit of the local community. The answer was yes. Five or six years later, the £300,000 cost of the wind turbine had been paid off by the generation of electricity, and that village community now has about £300,000 a year to go into local issues, because of that network of knowledge at the local level.

There is a richness out there, which can allow innovation. It goes back to what Bill Howat said: in the 19th century, it was not the Government that decided that Glasgow's water supply had to be improved in order to stop cholera, but the Glasgow Police Committee, which took that decision in 1850. That resulted in Glasgow's having its water supply. That innovation went to Sheffield, Manchester and Birmingham, then became a worldwide phenomenon. Innovation was about municipalities working alongside universities and the commercial interests in the area to bring things

forward, then spreading those things not from the top down but from the local level upwards. That way of achieving many things that we want—whether on climate change, economic development or tourism—is quicker than the way that we do it at the moment, perhaps, which is far too much top down rather than the other way around.

If you have worked in a local authority, you will realise that, very often, ideas that are generated there are worth while. Sometimes they do not work, but it is better to make a mistake at local level, where there is not so much damage, than to make it at national level.

Collette Stevenson: Thank you. That is really helpful.

Alison Payne: There has been a lot of discussion about the relationship between the Scottish Government and local authorities. However, localism is so much further below that. There is a broader discussion to be had about the structures, numbers and types of local authorities in Scotland.

For example, Highland is a huge authority area, and there has to be so much devolution below that tier of local government, and so much work with local communities, which opens up a whole other line of conversation and discussion about how best to do that. Our local authority structures are another hangover from the 1990s, and do not necessarily best represent communities. However, some local authorities do. Some, such as the Highland Council, which I mentioned, are regional tiers of government and best represent communities.

It is important that power is devolved and that there are structures in place, such as checks and balances and all the other things that we discussed, to ensure that local communities are properly listened to and represented and that different local issues are properly addressed. That requires an additional level of localism. Too often in Scotland, there is a discussion that suggests that 32 local authorities are too many, but many European countries have far smaller local authorities that can properly address local needs.

Collette Stevenson: Just about every week, I hear from my constituents that we should go back to the East Kilbride Development Corporation, rather than South Lanarkshire Council.

Bill Howat: We have a structure in which we have the Parliament and 32 councils, so we are unlike virtually any other European country—or, for that matter, any other developed country. It goes back to the Wheatley principles. That is one of the reasons that the Mercat group is saying, "Let's not argue about local government structures. Let's get the principles right." The

people who Collette Stevenson is dealing with in East Kilbride are probably saying, "There are certain things that we want to decide in East Kilbride," but they are not going to want to fire the strategic missiles or set national taxation. There are different levels of decision making. Much depends on what functions local people are able to get.

There is a responsibility to be realistic with people in conversations about those issues. I feel as though we are teasing out a tension to do with the fact that it is very easy to say that there are lots of efficiencies to be had in Government, local government, or wherever, but the reality is that things are complex and dynamic, and things are very interrelated.

In order to make efficiencies, you need to have some people at the thinking level. As Keith Yates outlined, a large element of that thinking power, particularly at the time of reorganisation in 1996, was stripped out. One of the harsh realities is that democracy costs money. We need to spell that out.

The Convener: That is a very good point. It goes back to what you said before about the knock-on effect—when something is legislated for, we must consider where in the financial memorandum is the money to enact those things.

Mark Griffin has the final question.

Mark Griffin: Real frustration about the lack of action over the past 25 years is coming through loud and clear, with written submissions citing research and report after report that has been produced. I will ask you to answer from left to right. How positive are you about there being a meaningful change in the relationship between local and central government?

Keith Yates: Am I left?

Mark Griffin: Yes, you are on my left.

Bill Howat: He was always on the left.

Keith Yates: I am an optimist. I started my career with a couple of years at the Scottish Office and I always found that local governments' relationship with it and, subsequently, the Scottish Government's civil servants, was very good.

I think that the conversation needs to be developed. In recent years, I feel that the relationship with local government has not been as good as it should be. Austerity may have prompted that, or it may have been a consequence of the Scottish Parliament's desire to take as many powers as possible, because it wanted to show that it could do things. All the different bodies that have emerged are quite powerful and they have the ear of ministers. One cabinet secretary represents local government,

which is, let us say a third of all public services, and nine cabinet secretaries represent the other quangos and suchlike. It seems to me that the balance is not quite right.

There needs to be a recognition that local government is a friend and that it could help to deliver things for the Scottish Parliament more efficiently and effectively, with a lot more innovation and engagement with local people than the way that things are happening at the moment. Too many things are cascaded down and there are not enough attempts to suck up the ideas, energy and innovation that exist locally. My guess is—actually, I know—that the intentions of the Scottish Parliament, local government and communities are very much the same, but there is almost a tension between them.

We talk about parity of esteem, but we need to make that real, rather than having what Alison Payne has described as another report that sits on a shelf for 10 or 11 years. Parity of esteem should be about trust and relationships between the different levels of governance that we have. As Bill Howat has said, those different levels must be re-examined to see whether we can get the efficiency and collaboration that is sometimes missing at the moment.

Bill Howat: I am slightly less optimistic than Keith Yates, but he is used to that. I would say that the starting point in addressing those issues rests with you as politicians, and that it is time that you rose to the challenges that you set yourselves when this Parliament was first created.

This is my personal opinion and refers to a worldwide feature rather than something that is peculiar to the Scottish Parliament, but politics has become more adversarial. Part of that comes from all the pressures that you guys face. I genuinely take my hat off to anyone who stands for elected office, especially since the advent of social media. I am not sure how you stand it, so well done to you all.

Nonetheless, you set yourself a challenge as a Parliament. You said that you would find a more consensual way of dealing with things and that you would delegate down to the lower levels. We need to get rid of the adversarial aspect. Excuse me for saying this, but if you really want to undertake a proper and consensual review, some of you will have to stand back and say, "Yes, we will let roses grow in the garden." You will have to accept that things will go wrong and that some of you got things wrong. That would be a good starting point. Unless we can get a cross-party approach at Parliament, the conversations to achieve some sort of consensus that we are suggesting are not going to happen.

Thank you for inviting us. One idea that we pushed in our submission is that we see your pre-budget scrutiny as an opportunity to roll things forward and to say that it is time to take a step back and take a much broader look. As we said in the final paragraph of our introduction, the target time is next year, when you are facing elections.

I will finish on a light-hearted note. I am sure you have all seen the film “Gladiator”. There is a scene in which the gladiator goes to his task master and asks him how he won the wooden sword called the gladius. His master tells him, “Win the crowd”. That sums up politics for me at the moment. I am not getting at anyone who is here. I am making a general point, and if you want to see it in spades you should look at what is going on in America at the moment. If you win the crowd, you win the election. Do you want to do that, or do you want to stand back and tell people that democracy costs? As I said before, I am glad that I will not be around to sort that out.

Professor Heald: I am optimistic, because I think that there is a better understanding of the issues, but I am pessimistic about whether substantial change will come.

My major area of interest is taxation and I think that Parliaments and Governments have given themselves serious problems with the structure of taxation in Scotland. People in the Parliament who are knowledgeable about that tend to understand it, but the practicalities of electoral politics make it difficult to do anything about that.

Alison Payne: I apologise for the pessimism that is definitely in our submission and perhaps in the way that we have spoken. There are coming crises in demography, the cost of living, austerity and the budget cuts that local authorities face. There are problems across the public sector and local authorities are key to fixing those. Health, education, justice and early intervention programmes all need work at local level.

There is a degree of optimism, but if we do not do that work, things will fall apart. We know about the crisis that the NHS is facing and we know about the problems elsewhere. Perhaps, in previous years, things did not look quite so bleak across the piece, but we need to do the work now because, as every Audit Scotland report keeps saying, the situation is unsustainable. Something has to change.

I agree with everything that has just been said about the need for cross-party working. If we are to win the crowd, there has to be honesty with the public. For too long, there has been an element of giving an easy answer—somebody else’s taxes can go up or we can have everything and we can pay for everything. That is simply not the case. The challenges that are being faced are difficult and difficult choices need to be made across the public sector. There needs to be cross-party

working and work needs to be done with the public.

There is no easy answer. We need to do this together rather than taking the combative practice of looking in isolation at each individual spending decision, such as free school meals for primary 7 pupils. If we carry on looking at every single spending decision in isolation, I will become more pessimistic. However, if we can take more of a strategic and cross-party approach and say that there is a solution, we can work together, we can be better and we can deliver what we have said we will deliver, we can take the crowd with us.

The Convener: Thank you very much for that.

We have gone over time. I feel that it will be frustrating if we have this conversation next year. What has happened to the local government review that was in train but seems to have been lost in the weeds somewhere, and the “Democracy matters” process? Were they not about the third sector, local government and national Government trying to take the crowd with them? That was the process, but was it useful? Do we need to find the fire in that again or is it time to do something else? It feels as though we keep doing those reviews. As we have heard today, we keep writing different papers.

Alison Payne: What is required is political leadership. We have had all the papers, and everybody in civic Scotland is crying out and they are almost all in agreement about what needs to be done. We need the political leadership to look to the longer term and say that, although they know that there is an election coming and they want to play to their own voters, they will stand together and deliver. We have done it before in Scotland with things such as the constitutional convention and the Smith commission, where parties came together, worked together and delivered. There have been many examples of such political leadership, but we have not seen it in local government reform and I do not think that anybody has shown it. There are plenty of reports, but there is not the political will.

The Convener: That is very helpful. That concludes our questions. Many thanks to the witnesses for joining us this morning and for your useful contributions. Let us hope that we can talk about something very different 12 months from now—that would be great.

As the committee previously agreed to take the next three items in private, and that was the final public item on our agenda for today, I now close the public part of the meeting.

11:33

Meeting continued in private until 12:34.

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