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Finance and Public Administration Committee

Comataidh an Ionmhais agus Rianachd Phoblaich

Wednesday 23 September 2026

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Pàrlamaid na h-Alba

Session 7

Wednesday 23 September 2026

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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
6th Meeting 2026, Session 7

CONVENER

*Clare Haughey (Rutherglen and Cambuslang) (SNP)

DEPUTY CONVENER

*Alan Brown (Kilmarnock and Irvine Valley) (SNP)

COMMITTEE MEMBERS

*Liam Kerr (North East Scotland) (Con)
Michael Marra (North East Scotland) (Lab)
Liam McArthur (Orkney Islands) (LD)
*Kim Schmulian (Glasgow) (Reform)
*Pauline Stafford (Bathgate) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Mary Beattie (Aberdeenshire Council)
Ashley Campbell (Chartered Institute of Housing Scotland)
John Dickie (Child Poverty Action Group)
Sarah Fortune (Chartered Institute of Public Finance and Accountancy)
Karen Hedge (Scottish Care)
Jason Henderson (Scottish Council for Voluntary Organisations)
Michael Kellet (Public Health Scotland)
Claire McPherson (Universities Scotland)
Dave Moxham (Scottish Trades Union Congress)
Lorraine O'Hagan (South Lanarkshire Council)
Councillor Kelly Parry (Convention of Scottish Local Authorities)
David Robertson (Scottish Borders Council)
Sarah Roughead (Police Scotland)
Andy Witty (Colleges Scotland)

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Wednesday 23 September 2026

[The Convener opened the meeting at 09:30]

Pre-budget Scrutiny 2027-28

The Convener (Clare Haughey): Good morning, and welcome to the sixth meeting in session 7 of the Finance and Public Administration Committee. We have received apologies from Liam McArthur and Michael Marra. I remind everyone to switch off or put to silent their mobile phones and any other electronic devices.

Our first agenda item is taking evidence as part of the committee's pre-budget scrutiny for 2027-28, which focuses on the affordability and sustainability of Scotland's tax and spending plans.

I welcome our witnesses to the meeting. Mary Beattie is head of finance at Aberdeenshire Council, and Lorraine O'Hagan is head of finance at South Lanarkshire Council. Councillor Kelly Parry is resources spokesperson for the Convention of Scottish Local Authorities. She is accompanied by Sarah Fortune, who represents the Chartered Institute of Public Finance and Accountancy directors of finance group, and David Robertson, who represents the Society of Local Authority Chief Executives.

Before we begin, I remind witnesses not to worry about turning on their microphones during the evidence session—broadcasting staff will do that. Please raise your hand and indicate to the clerks if you wish to come in on a discussion.

I will ask the first questions. COSLA has observed that local government is central to delivering many of the Scottish Government's ambitions for public service reform and prevention. How well does the spending review reflect that role? What would help to strengthen the link between national priorities and local delivery?

Councillor Kelly Parry (Convention of Scottish Local Authorities): Good morning, and thank you for taking the time to take our evidence. Those are good questions.

There is a desire in COSLA and the whole of local government to work in partnership with the Scottish Government to deliver on our shared ambitions and priorities. Of course, we come with opinions on how we can strengthen that partnership. You will be aware from our submission that we think that the key factors that will strengthen that partnership are the health, sustainability and function of local government, which is Scotland's place-based infrastructure to deliver public services.

One of the most important aspects would be multiyear settlements, which would give local government the stability that it needs to plan ahead. That would enable local government to go further on public sector reform and shared working across regions and different council areas.

The Convener: The Scottish Government does not get multiyear settlements, but I appreciate that we have heard that call from COSLA, local authorities and third sector organisations across the piece. Are councils currently constrained more by a lack of funding or by a lack of flexibility over how their funding can be used?

Councillor Parry: It is a bit of both. COSLA has not said that local government is perfect. We appreciate why the Scottish Government might be looking at reform, and we agree with that. For several years, we have pointed to the fact that increases in demand and the pressures that lead to such increases have not been matched by the settlement that has been provided.

Alongside that, as you referred to, local government has several ring-fenced commitments. Taking away education and health and social care spending leaves local government with only about 25 per cent of funding that is not ring fenced to spend on all the other public services that it delivers.

The Convener: How can the spending review address the unique challenges of rurality and island communities to support financial sustainability? How could it help Aberdeenshire Council in particular—although I am aware, being an MSP for South Lanarkshire, that South Lanarkshire Council also has some very rural areas—to mitigate current fiscal pressures?

Councillor Parry: I am happy to let my colleague from Aberdeenshire Council come in on that specific question, but you are right that COSLA—alongside, I believe, the Scottish Government—considers the Highlands and Islands to be a particular issue, which was recognised in the recent announcements about public sector reform.

To give you a very specific example, the funding formula that allocates funding to all councils across Scotland takes into account Highlands and Islands and rurality issues. We regularly discuss those issues—I will bring in colleagues who are directors of finance, who sit in meetings where that happens. The distribution group discusses those issues and makes sure that provision is made. I will pass over to my Aberdeenshire colleagues to answer your question.

Mary Beattie (Aberdeenshire Council): The issue is not really the cost that is associated with rurality; it is that the delivery options are different. We have small rural schools, which we have to maintain. There is a perception that, when roll numbers go down, we can close such schools. However, statutory responsibilities mean that we cannot do that, and we are bound by other constraints.

We have similar challenges in health and social care. It is the dispersal of communities in Aberdeenshire that causes the issues, not necessarily the cost of delivery.

David Robertson (Scottish Borders Council): The issues that have been outlined by my colleague from Aberdeenshire are pertinent to all rural authorities across Scotland. One of the challenges that we have with rural communities is the dispersal of settlements and the fragility of those communities. The age profile of many of our rural and remote communities means that service delivery is a massive challenge, and the transport distances that are involved in delivering services are huge. For example, getting carers to remote and rural locations to look after older people in their homes is a much bigger challenge than it is in urban areas.

We try to ensure that a rural weighting is applied to reflect that challenge. However, quite honestly, that often does not cover the costs that we incur in trying to sustain services in local communities and ensure equality of access.

Lorraine O'Hagan (South Lanarkshire Council): I echo what David Robertson has just explained. As you said, convener, South Lanarkshire Council has both an urban and a rural community to serve, and we need to ensure that we are equal in our offering to constituents across the South Lanarkshire area. The settlement and distribution group absolutely takes account of the rurality aspect, and we are keen to feed back on that whenever we are approached about it.

The Convener: COSLA's submission highlights the difference between the 2023 spending review projection for 2024-25 local government funding, which was £11.4 billion, and the eventual settlement of £14 billion. What does that tell us about the usefulness of the spending review, and how could it be improved?

Councillor Parry: The spending review could be improved by matching local government's ask, if I dare make that statement.

Local government faces a budget gap of £529 million in 2026-27, and that is with local government having already delivered £5 billion in savings since 2010-11. The Accounts Commission has reported that there will be a £1 billion gap to 2027-28, and the Scottish Fiscal Commission has reported that local government resource share has fallen from 26.4 per cent to 24.8 per cent of the Scottish budget. That is a £472 million reduction across the spending review period.

Those are the facts and the figures, as COSLA understands them, and there is obviously a mismatch there in terms of what we are able to deliver. COSLA has repeatedly highlighted a number of key policy areas where we feel that the funding does not match the delivery aim of policy.

Sarah Fortune (Chartered Institute of Public Finance and Accountancy): On your specific question about what can be done, I will just supplement what Councillor Parry has said. Evidence from the Scottish Fiscal Commission, the Accounts Commission and a lot of other independent evidence shows that, although the funding and cash settlement for local government have increased, so have the collective demands and the wider policy obligations. That creates a difficult situation. Equally, the Scottish Fiscal Commission has said that, through the spending review and the projections that are set out there, local government is likely to see a significant reduction in revenue—at best, there will be a flat cash settlement—and a significant reduction in capital.

Clearly, we understand the fiscal challenges that the whole public sector faces, but if we want to lean into many of the outcomes that are set out by the Scottish Government, with which local government is absolutely aligned and which it can deliver, it is short-sighted not to think that investment in local government can help to achieve that.

Lastly, we have lots of different funding streams that come from outwith the local government funding portfolio. A significant amount of funding comes from the health and education portfolios. The local government settlement is, obviously, a big part of what local government gets, but it is not the full story in terms of what is delivered. If there were more transparency in the Scottish budget process, we could look at the situation from a much more holistic perspective, which would be helpful.

The Convener: The issue of the transparency of budget lines, budgets being transferred in-year and so on has certainly been raised with the committee before.

David Robertson: The comment that I would make on that is that the complexity of the settlement and the whole financial planning process can be mind boggling. It is still done on a fairly short-term basis—as you outlined at the start, the Scottish Government has an annual budget. We do not plan for the long term.

I have been at this game for a long time, and I feel that it is important that we take a longer-term look at the spending review, the medium-term financial strategy, fiscal sustainability and various policies and try to link those much more closely for elected members, so that they can then take the decisions that they need to take regarding the allocation of resources. That longer-term planning piece, which involves horizon scanning and linking all the different parts of the jigsaw, is really important. If we can improve the clarity around the resources envelope that we are working to over the longer term, that would significantly help everybody.

The Convener: That segues very nicely into questions that Liam Kerr wishes to ask.

Liam Kerr (North East Scotland) (Con): First of all, Councillor Parry, I have a question that relates to something that you just said. As I understood it, the 2023 Verity house agreement was designed to, if not solve, at least ameliorate some of the challenges that you highlighted. Is that agreement still extant and being observed at the Scottish Government level? If so, how does it, or how should it, impact on the proposed reforms that you will no doubt be asked about later?

Councillor Parry: That is a really good question. The Verity house agreement stands at the moment, but I think you are right to raise it. There have been a number of announcements, particularly in the past couple of weeks, that I think it is fair to say have come as a bit of a surprise to some people in local government. However, we have a new Government and we are in a new parliamentary session, so it is perhaps time to have a refresh of the Verity house agreement.

I do not want to stray too much into the areas that the committee might ask about later, but the one thing that COSLA would like to impart is that we are absolutely at the table to work in partnership with the Scottish Government. The delivery aims that the Scottish Government has are very much in line with those of COSLA and individual councils, which are about improving public services, improving people's lives and improving outcomes for people in our communities.

Liam Kerr: David Robertson, you mentioned the medium-term financial strategy. Your submission suggests that the strategy should assess whether local government funding is sufficient to meet your statutory duties, do work on prevention and enable longer-term planning—the same sort of thing that the Verity house agreement was designed for. What should that assessment look like in practice? Can you help us understand how that would inform budget decisions?

09:45

David Robertson: I refer you to the approach that the majority of councils take. We look at the policy commitments that the Government is asking us to deliver and we look at the services that we run locally to respond to those commitments and to deliver the outcomes that local communities desire, and we project those over the longer term. The fundamental point that I was making about the medium-term financial strategy and the spending review is that those things do not seem to be particularly well linked at the moment. There seems to be a lack of clarity. This is the accountant in me speaking—I am sorry—but requiring a reconciliation between the different pieces of the jigsaw would be hugely helpful to us in our longer-term financial planning.

Liam Kerr: I understand.

I have a couple of questions on the finances. We have just heard from Councillor Parry that councils still face a combined £529 million budget gap this year, which is in the context of £5 billion having been stripped out since 2010-11 and an average 7.7 per cent rise in council tax. Is the fundamental problem how the local government funding formula mandates a distribution around all the councils, or is there simply not enough funding in the system to meet the current demand?

I will come to Mary Beattie first, but I appreciate that others will want to respond.

Mary Beattie: I think that demand and public expectation are probably running ahead of the money that we in local authorities have available. It is a longer-term sustainability issue, not just a medium-term financial strategy position. I think that councils have made a tremendous amount of savings over a number of years, but when I look ahead, as the head of finance for Aberdeenshire, I see a massive gap. It is not that Aberdeenshire is in difficulty or has challenges, it is just that we recognise the demands that we are seeing coming through, and we are forecasting what that is going to cost us in the longer term.

Liam Kerr: If you do not mind, I will press you on the funding formula. Have you any thoughts on how the funding is distributed under the formula?

Mary Beattie: I think that the formula has to be all things to all men and women. Aberdeenshire has specific challenges on rurality, but a city council will have a greater intensity of demand, and its needs will be different from ours. The funding formula is very difficult to deal with because of that—it is like comparing apples and oranges.

Liam Kerr: Thank you. I understand.

Sarah Fortune: I currently chair the local authority directors of finance section, and I would say that Mary Beattie has articulated the fiscal sustainability funding pressures well. The financial sustainability of local government is the number 1 thing that we discuss across the local government sector.

I do not think that it is just a question of the funding settlement. There is absolutely a structural deficit in terms of what we have at the moment, given the growing demands that are coming through and, equally, the fiscal projections for the public sector.

I also sit on the settlement and distribution group through the local authority directors of finance section. Mary Beattie and David Robertson both raised the fact that the situation is complicated. We have a growing set of collective demands. What is right for my local authority in East Lothian will be very different from what is right for Highland Council and the islands councils. The funding formula is trying to look at everything as a whole. The process is difficult and complicated and, at some stage, we might need to lean into looking at that in a different way. Equally, there needs to be a realistic conversation about the outcomes that we are trying to achieve and whether the fiscal resources are sufficient to enable those outcomes.

At the moment, I would say that it is a complicated beast. There are lots of different and complex demands in my local authority area. For example, we are one of the fastest-growing areas, similar to Councillor Parry’s area. Population is a huge challenge for us, but it is not the only one. There are lots of demographic, deprivation and rurality challenges. The funding formula tries to take account of all of that.

Liam Kerr: I understand.

David Robertson: At the heart of your question is another one: whether the issue is about quantum or distribution.

Councils spend £15 billion a year. We deploy huge amounts of money in the delivery of public services. However, there is simply not enough money in the system to deal with the demand from communities, such as in relation to the issues associated with homelessness and housing and with an increasingly elderly and vulnerable population who require care. We simply cannot support the same level of services with a reducing share of the overall Scottish Government budget. I think that we are now down to less than 25 per cent of the total.

There is, therefore, an element of both. We need to look at the funding formula and ensure that it is still fit for purpose. However, as a country, we also seriously need to look at the quantum of the resource, at what we are asking local government to deliver and at the way that we are asking councils to deliver it.

Lorraine O’Hagan: I add that, in recent years, we have looked at the formula and reallocated funding across authorities in a different way. As Sarah Fortune is on the group, she will know about that better than I do. However, most recently, for example, I am thinking of social care. A significant amount of money was allocated across councils, and some benefited substantially whereas others lost by quite a margin.

The point is that we still have those budget gaps and we still have funding pressures. It is about the whole system and the funding allocation in totality.

Liam Kerr: I understand. Thank you, convener.

The Convener: I will pick up on a point that Mr Robertson made. Correct me if I picked you up incorrectly, but I think that you said that the local government settlement is about 25 per cent of the total.

David Robertson: It has been reducing over the years, yes. That is correct.

The Convener: Does that include things such as education and social care?

David Robertson: Yes.

The Convener: It includes all of the moneys that are transferred in year.

David Robertson: It absolutely includes education and social work, yes. That is the totality of the local government budget. Around 50 per cent of our budget, in each council, is spent on supporting education, and a further 25 per cent is spent on social work.

The Convener: I am sorry; maybe I did not phrase that correctly. I am asking about 25 per cent of the Scottish Government’s budget being transferred to local authorities. That is the totality, as you round up at the end of the year, and it includes everything, such as health and social care transfers and all of those sorts of things.

David Robertson: That is my understanding. Yes.

The Convener: Okay. Thank you. I wanted to clarify that.

Kim Schmulian (Glasgow) (Reform): You have touched on this issue already, but I would like to drill down a bit further. Will you tell the committee which three rural service cost pressures make the largest quantifiable difference to your 2027-28 requirement, and the annual cost of each of those against a reasonable national benchmark?

Mary Beattie: The biggest cost for us in Aberdeenshire would be health and social care and home care, then probably servicing small rural schools and the maintenance of our roads network.

I am afraid that I do not have the figures that you are looking for to hand. However, from a rural authority perspective, if you think about all the travel that we have to do for all of our services across the various settlements and communities, you can see that anything that requires service delivery in a particular location will be more expensive.

Kim Schmulian: You touched on that previously in respect of delivery. If we did a comparison with a city council such as Glasgow, for example, we would see that you are obviously spending much more money travelling in order to deliver your service.

Mary Beattie: We spend time and money on travel. The service delivery cost—I constantly use home care as an example—of spending time with the client is the same, but there are additional expenses from the time that is taken to travel between clients.

Kim Schmulian: Have you been able to quantify those costs?

Mary Beattie: I have that information, but I do not have it to hand. I am sorry.

Kim Schmulian: Could you provide it to the committee?

Mary Beattie: Yes.

Kim Schmulian: That would be very helpful.

David Robertson: One of the biggest cost pressures in our locality is the cost of supporting children in specialist residential accommodation outwith the area. This year, we are projecting an overspend of about £3 million in the budget for supporting children with complex needs out of authority. Demand in that area is growing each year. To put that in context, I point out that one of those placements for one child can cost up to £250,000, and there has been a significant increase in demand. Since the start of the year, we have had to place an additional nine children in residential secure accommodation outwith our region, and that pattern is replicated across Scotland. That is the major demand pressure on our budget.

Beyond that, the pressures on our budget come from the cost of education, social care and transport. For example, fuel costs are significant. We run very big public buildings, so our heating costs are significant. We have to build those costs into our budget every year and address the challenges within our resource envelope. Eighty per cent of our funding comes from the Scottish Government and 20 per cent comes from council tax. That is the balance.

Kim Schmulian: Is that the position with councils across the board?

David Robertson: I would be very surprised if colleagues did not have similar pressures in their areas.

Kim Schmulian: Do the children who need those placements have special needs and requirements?

David Robertson: Yes. The children have a variety of different needs. The costs associated with that provision—which we do not have locally, so the children need to go outwith the authority—are significant and place huge pressure on our budget.

Councillor Parry: David Robertson is absolutely correct. Although those pressures are felt acutely in rural areas, they are felt in all areas. We also see pressures in home-to-school transport. Midlothian Council, which is my local authority and covers a mix of urban and rural areas, has a mix of those problems. We also have a challenge with out-of-authority placements, as David Robertson set out. We have sought to resolve the issue by using capital funding to purchase properties to ensure that we can keep oor bairns in Midlothian, because that is the right thing to do, but we had a flat-cash capital settlement last year. I know that we are predominantly talking about revenue funding, but I want to introduce the point about capital funding, because it is important that the committee appreciates that.

On home-to-school transport, if we have to transport a child to specialist provision for those with additional support needs—they might need deaf or blind provision—the taxi costs and other transport costs can total £50,000 a year. Councils are actively seeking ways to overcome such issues.

Kim Schmulian's point is absolutely valid. The pressures are felt acutely in rural areas, but they are felt by all councils.

Kim Schmulian: I have heard that foster care charges are also increasing. There has been a knock-on effect because of delays in child welfare hearings coming to court, due to pressure on the courts in general. As a percentage, how much more do you pay for foster carers than you did, say, 10 years ago?

Sarah Fortune: I do not have that specific figure, but the increase is certainly very significant. We have to review how much we are paying for foster carers every year, and there has been an exponential increase. There are long-term outcomes benefits if we invest in our foster carers, because they do a phenomenal job and provide very positive outcomes for our children and young people, but the financial costs have increased hugely. Sometimes, as David Robertson and Kelly Parry have rightfully said, that has to be weighed against the cost of putting a child out of authority placement. I do not think that that comes with a huge financial burden, but, equally, it is not always the best outcome for those children and young people, so there is always a delicate balance to be struck.

However, there are significant additional costs coming through. I do not have specific figures to hand, but if the committee is looking for them, I am more than happy to provide them.

10:00

Kim Schmulian: I am interested in this from the perspective of the Scottish courts administration. Constituents, as well as lawyers, have been telling me that they have been cleared by social work to be reunited with their children, and they have no criminal proceedings pending, but they cannot get a court date for a welfare hearing to have that signed off by a sheriff. As a result, children are having to remain in foster care longer than they really should, which, obviously, is an extra financial burden on you. I am keen to explore and pursue ways in which other parts of the system are forcing you to spend more money.

The Convener: I am sorry, Mr Robertson—it sounds as if I am picking on you, because I keep coming back to a point that you made. You highlighted the impact of the increased price of fuel, gas and electricity on local authorities, but you did not mention employer national insurance contributions, which I am sure are also having an impact. Have you done any assessment of what those outside factors have done to councils' finances, and what the additional in-year costs are, given that electricity costs, for example, do not go up just once a year? Have you given any thought to, and calculated, the impact of that on budgets?

David Robertson: Our approach to the budget is to look at the range of cost pressures that we are seeing coming through pay, inflation, fuel costs, transport, foster care and all those other issues and to build them into next year's budget. It is based on our projections at the moment, in advance of the settlement.

Obviously, that leads to a gap in the current year, which has to be bridged. As a result, we look at the money that we expect to get from Government and the money that we are projecting to raise from council tax, and the balance has to be met by savings. We have been doing a range of financial and scenario planning on the costs that are coming through the system, building them into our budget and then trying to drive transformation and service change—and, to be honest, cuts to services, reductions in service volumes and so on—to balance that particular pressure.

With fuel costs, local authorities will, through the Scottish Government's national contract, tend to spot purchase fuel in advance. Therefore, although market prices might go up, we will not necessarily get hit with those increases immediately; instead, we get hit by those pressures when the contract runs out. That forward scenario planning helps with issues such as fuel costs, but we nevertheless have to build them into the budget on a longer-term basis.

The Convener: I suppose that this might be a question for Councillor Parry, given that it is about COSLA's role in looking across all the local authorities. Has any assessment been made of the impact of the increase in fuel, gas, electricity and ENICs on the overall budget across local authorities?

Councillor Parry: Absolutely. If the committee would like that kind of exhaustive list, and the associated cost, I would be very happy to get that specific figure over to you.

Another cost pressure that has not been mentioned is the increase in construction costs, which have become astronomical over the last 12 months for global reasons that are well known to everybody. That has caused councils to pause, or redesign, a lot of capital projects, so it is absolutely a real pressure.

If we are talking about fuel costs, another pressure is not just the cost to councils, but the cost to our staff. Some of the recent increases have been eye-watering—diesel, for example, is about £2 a litre now. Many of our staff, particularly those in health and social care, pay for their own fuel, and that unfortunately has been a predominant factor in driving our own employees towards seeking cost of living support from councils, too. My own council has just run out of Scottish welfare funds, and it is only September; we know from analysis that some of that money has been used by staff, so the council has decided to continue to fund those costs at their current rate, even though they are costs to ourselves. We are absolutely dealing with cost of living pressures in that respect.

The pressure of the increases in ENICs has been significant and, indeed, played a significant role in our council tax increase last year. If the committee wants an exhaustive list of those pressures, and the costs attached to them, I would be very happy for council officials to get that to you.

The Convener: I think that that would be really helpful in allowing us to look at the external pressures that you are facing, particularly in year, some of which are unpredictable. Thank you for the offer to provide the committee with that list.

Pauline Stafford (Bathgate) (SNP): I thank the witnesses for their time this morning, and I will just draw members' attention to my entry in the register of interests as a sitting councillor in West Lothian Council. In that respect, I am quite familiar with everything that has been raised in the submissions.

I want to ask about local government reform work. You have already talked about shared services; I think that the case for such an approach is well established, and it is happening in some places, but can you give us some details about where it is happening and where it is working? What are the biggest barriers to progressing that work?

Councillor Parry: Shared services are absolutely happening. As you will be well aware, local government has been very well plugged into the transformation landscape for a while, with different arrangements in different councils across Scotland. Indeed, that is why COSLA has made it very clear that, when it comes to public sector reform, it has to be the right fit for the right locality, and there has to be some flexibility. My own council regularly shares services with East Lothian Council and Scottish Borders Council; the City of Edinburgh Council carries out administrative work for us; and there are other more intertwined arrangements in Ayrshire and across the Forth Valley region, where things are more integrated and perhaps further along that road.

The other sphere, if you like, of shared services is regional working. That already exists and is being taken forward in a very productive way, and it is very much focused on using economies of scale instead of simply sharing administrative functions, which is a different thing.

Pauline Stafford: Is that the direction of travel that we are moving in, and might this public service reform work provide opportunities to go further?

Councillor Parry: Absolutely. A crucial issue that we have not talked about, and which I think is very important to local government reform or public sector reform—however we want to frame it—is preventative work, and how we can reform much of the delivery of public services by moving some of that money downstream to prevent some of the spend further up. That, in itself, is a huge piece of work, and I think that some councils have been incredibly successful in that respect. It is a challenge, but I think that the way in which we can save money with public sector reform, as opposed to spending it, is to take an absolutely preventative approach.

Pauline Stafford: Does anyone else wants to come in on shared services?

Sarah Fortune: Councillor Parry has articulated the points really well. We are not just starting to lean into this journey—we have been doing so for a long, long time now. Councillor Parry has described local arrangements of shared services as well as much more strategic collaboration, and I think that the proposed regional authorities and a lot of the work that is already being carried out through some of the current city region deal constructs will actually deliver demonstrable change. Indeed, that work has started to break down structural barriers, and I think that that is really important.

Picking up Councillor Parry's last point, I think that preventative spend is a very key area. All of us in the public sector have probably grappled with the challenge of how to support early intervention and prevention in a much more holistic way, and, as the committee might know, there are a lot of active pilots in local government to try to explore that. I would say that an awful lot of our spend is already preventative, but part of the challenge is how to break down funding and structural boundaries so that we can actually lean into prevention.

The last point is that prevention sometimes takes time, so how do we deal with all the immediate challenges and lean in to the long-term fiscal challenges in relation to transformation, and at the same time create the space and capacity to invest in prevention, which has that long-term impact? That is the collective and shared challenge that all of us must lean into, but how we do that is obviously quite a difficult scenario.

Pauline Stafford: That is the huge job of dealing with short-term pressure, cutting across portfolios and trying to demonstrate where the benefit has come in, although it may well come in 10 years down the line.

David, did you want to come in?

David Robertson: To come back to the shared services point, as Sarah Fortune said, this is not a new journey for local government. We have been sharing services in different forms for a long time—perhaps not at the scale that some people might wish to see, but there are really good examples of shared services operating across Scotland.

An excellent example of shared services is Scotland Excel, through which 32 councils buy into a national procurement arrangement below the contracts that the Scottish Government operates on our behalf. We have a long-standing and very successful arrangement with City of Edinburgh

Council, which runs our insurance services, as I think it does for East Lothian Council, Midlothian Council and, indeed, councils further north of us. There are really good examples of where we share services and we absolutely lean into that where that works for us in a local context. That is something that will increasingly develop, as long as it works for local authorities.

Pauline Stafford: That is great—thank you for that.

My other question is around workforce planning. COSLA's submission said that we must ensure that

"workforce reduction targets do not apply to Local Government and develop realistic workforce plans that reflect demand".

There is a lot of talk about front-line and back-office staff, so I wondered whether you had any comments on that from a local government perspective.

Councillor Parry: Workforce planning is incredibly important, and it is incredibly challenging across different parts of local government, for different reasons, with regard to recruitment and retention of staff. I do not want the committee to think that removing a whole tonne of local government workforce would somehow solve the problem.

Statistics show that, in local government, full-time equivalent staff numbers have increased by 5.4 per cent since 2019, and that is compared with 16.3 per cent for the national health service, 57.1 per cent for the civil service and 43.6 per cent for other public bodies. Over that same period, local government, as well as needing to plan carefully for workforce gaps, has been particularly lean, and that has happened in the face of increasing demand.

Both challenges are running side by side, particularly for rural authorities. In the teaching workforce, for example, there is a recruitment challenge, and I think that all 32 authorities would agree that there are challenges in health and social care. There are particular challenges with posts in, for example, environmental health and trading standards, and COSLA is doing some in-depth work around that. Again, that ties into joint working—could there be a shared service model? We are looking into that.

To repeat the figure that I mentioned earlier, local government has made £5 billion of efficiencies since 2010-11. As colleagues have said, we are absolutely leaning into this, and we have not taken our eye off the workforce issue.

Lorraine O'Hagan: I will comment on Ms Stafford's reference to back-office staff. That is where I work—we are in a support function, and we have seen efficiencies over the years, predominantly in the past 10 years in human resources, finance and information technology. We are conscious that we want to deliver on front-line services, so when we are looking at efficiencies and trying to make things better and leaner, that is the area that we are hitting. However, the problem is that we need the back-office staff to support change in the council and to take transformation forward. There is a fine balance between protecting front-line services and facilitating the work that has to be done.

David Robertson: Coming back to the question of workforce planning, we are fundamentally people-based organisations. We employ something like 250,000 people as part of the Scottish economy. Many of those people are in front-line posts as teachers, social workers and carers, delivering services directly to communities. However, we have a significant number of people in the back office, and that is absolutely where we have focused our attempts to become more efficient and effective, and to join things up more effectively over the years.

10:15

Since 2010-11, we have taken something like 25 per cent of the back office out of council support services, and that is now having a bearing on the front line. We have lost many of the administrative back-office and support professional posts that we had in the centre of councils. At the same time, the powers and duties that have been placed on local government—the very things that these people are supporting and responding to—have been increasing. SOLACE and COSLA recently did a piece of work with the Improvement Service and identified 600 powers and duties that have been placed on local government in relation to the way that we deliver services, our responsibilities and how we respond to legislation.

All of that is having a significant bearing on the centre of the organisations. The Freedom of Information (Scotland) Act 2002 alone has caused a massive burden; it is about the ability of councils to respond to that one particular piece of legislation. The application of artificial intelligence on top of that is driving a huge increase in both the volume and complexity of freedom of information requests that we are receiving and trying to respond to. If we do not have the back office, we cannot respond, so the distinction between back-office and front-line services is becoming increasingly unhelpful, because we are looking at running one organisation and responding to all the challenges that we have—and they are many.

Sarah Fortune: I absolutely agree with the point around the freedom of information challenge. I will add a couple of points from a local perspective, and I will pick up on Lorraine O'Hagan's point. In East Lothian, we have significantly reduced the back-office function. This year, as part of the budget, we are now having to build in an additional £2.5 million to £3 million, because we do not have enough resource and capacity in the corporate centre to help and enable. The public sector reform that has been announced has not just started now. Locally, we are already leaning into 160 individual transformational projects that are under way. They are supporting our front line and trying to look at our customers in a much more digitally enabled way. However, it takes time, skills and resources to set that out, and it is important that the committee understands the gravity of the challenge.

Lastly, on the national workforce figures, as David Robertson indicated, local government has not stayed static over the past few years. We have had new powers and obligations coming through, as well as new policy commitments to achieve, and that is really important.

Implementing the policy of reduced class contact time is a classic example. First, leading into it, there is an estimated fiscal cost of about £300 million, and, secondly, our workforce will increase. It is not just the teaching numbers that will increase. How do we recruit and ensure that have appropriately skilled staff? We have to take a much more holistic approach, and the language about reducing back-office staff can be unhelpful and often creates challenges when we are trying getting people into the right professions to help us deliver and support change in the longer term.

Pauline Stafford: Thank you for that—it is really helpful. We always talk about digitalisation and AI in the sphere of progress and benefits, but my office staff would agree with your points about the increased workload from AI-generated correspondence.

I have one final question, which is about outsourcing. Councillor Parry, you touched on using your capital budget to keep your bairns in your local authority. Where are you moving on outsourcing? There have been reports that the use of outsourcing has been increasing over the past few years. Are councils or COSLA considering the level of outsourcing of services and how much it costs compared to bringing things in house?

Councillor Parry: I raised that local example, so I am happy to expand on that. It is a significant pressure for us locally. Our overspend on that was about 1 per cent of our annual revenue budget, which is significant, so we absolutely are looking at it. In our locality, we have the biggest increase in population in Scotland, and that is predicted to continue for some time. That brings higher demand. People have increasingly complex lives, and we have an increase in the number of young people with additional support needs, so there is an increase in demand in that space.

We are absolutely looking at that. If the committee would like a national figure, I am sure that COSLA would be happy to collate that from individual councils.

Sarah Fortune: On outsourcing, I can give you some local context. We do not actively have a policy that says that we are going to look to outsource. As always, when we are considering procuring services, we have to balance various things and consider best value, what is out there and what outcomes we want to achieve. Clearly, community wealth building is part of our obligation, and it remains a critical aspect of our considerations. There are cases where outsourcing is cheaper and will deliver much better outcomes for the services that we deliver, but there are cases where it does not work, for a myriad of reasons, and it often comes at a higher cost. All those factors need to be taken into consideration. Locally, we are not actively looking at outsourcing or insourcing; we look at what delivers best value and how all the factors will come to fruition.

Mary Beattie: As part of our budget-setting process, when we are looking at service delivery, we try to benchmark in-house services and external services. However, as my colleagues have said, external contracts have to be managed, so it is not just about comparing the cost of delivery. We have to actively manage the contract and ensure that standards are maintained.

Lorraine O'Hagan: I would make exactly the same point. It is about managing an external contract or having control internally of your staff and doing things consistently and to the standard that you expect.

In South Lanarkshire, we carried out an exercise to look at in-house services. Our politicians were keen on looking at what we were outsourcing and what we were keeping in house. That was not with a view to making a decision either way; it was just a review to see whether what we were doing was the most appropriate and best fit. We ended up bringing some work back in house, employing new staff in the council and getting benefits relating to control and consistency in our environment.

Alan Brown (Kilmarnock and Irvine Valley) (SNP): I want to touch on local taxation. The joint submission from COSLA and SOLACE states:

> "Local tax reform should also be considered as part of a wider approach to fair, sustainable and locally accountable public finance, rather than in isolation. Reform of council tax, wider local revenue-raising powers and greater local fiscal autonomy should be considered alongside national tax policy, multi-year funding"

et cetera. From what I can see, unless I have missed it, COSLA has not put forward proposals for what alternative local revenue-raising powers would look like. Does COSLA have an agreed position on what local taxation reform could look like?

Councillor Parry: COSLA and the Scottish Government have a joint working group on council tax reform, and the committee will be aware that the findings were published recently, on 11 September. We are absolutely involved in that space.

We have also been working alongside the Scottish Government on the visitor levy, the cruise ship levy and the general power of competence. COSLA and local government are minded to do that.

There is a lot to do in that space. One thing that we absolutely should move ahead with in public sector reform is the revaluation of council tax. Whether it is the case that, as the Scottish Government thought, it is a good idea to do those two things at the same time is way above my pay grade, Mr Brown. The plan is for a new bill that will add two new council tax bands, to be introduced later this year, so progress has been made in those areas. I am not entirely sure whether that will now be packaged as part of the public sector reform agenda.

Alan Brown: You said that there is a joint working group, but I did not get a feel for what wider local tax-raising powers you would look at. How do you get the balance right? Earlier, my colleague Liam Kerr was talking about the local government funding formula. Different councils complain about the local government funding formula as it is. How do you get to a place where you devolve taxes further, have local tax-raising powers and still maintain equity?

My local authority, East Ayrshire Council, is one of the smaller local authorities. Councillor Parry spoke about population growth in her local authority, whereas in areas such as East Ayrshire, depopulation is an issue. How do you effectively place that responsibility on councils, devolve powers from Government and arrive at a fair and equitable position so that you do not have councils squealing, “This is not fair because there is a greater burden on us locally”?

Councillor Parry: I take on board your point. Midlothian is the fastest-growing council area in Scotland. Every year, I lobby for the funding floor, for example, to be maxed out, as I am sure Sarah Roughead does, given that we are in a high-growth area. It is the one funding allocation lever that the Scottish Government has. You are absolutely right. As my colleague said earlier, a one-size-fits-all approach does not always serve everybody particularly well. There are different challenges. That is why there are 112 different indicators in the funding settlement. Some of those are weighted differently for different reasons, including rurality and deprivation.

You are right: it is a bugbear for communities, particularly those that see substantial increases in their council tax but a reduction in services. That can be frustrating for people. It causes a disconnect in our communities as well.

The short answer to that is to get a larger settlement. The last time that the funding formula was essentially re-established was with the concordat back in 2007, when I believe the current First Minister was the finance secretary. However, periodic reviews have been carried out, and we review the indicators every year—in fact, sometimes more often than that, in the settlement and distribution groups. The focus on that distribution is always on consistency and fairness.

I do not think that that answers all your questions. I am saying that there is no answer, Mr Brown, as to how you do that. There is an interesting idea about councils being able to raise more income and keep it. For example, non-domestic rates are collected from councils and then redistributed by Government. That creates a situation in which a particular council could be allocated less than it collected.

I would offer a wee note of caution around some of those areas, such as the higher council tax bands. That might be great for council areas that are particularly leafy or have a high proportion of higher-value properties, but it might disadvantage another council with high levels of deprivation. We see that with the visitor levy and the cruise ship levy. My local authority is landlocked, and we do not have a huge tourism sector, so those taxes are of no benefit to my council.

I hope that that gives you an overall flavour of where we have got to with some of those localised taxes. There is certainly an appetite to go further but, at this point, we have got to where we have got.

10:30

Sarah Fortune: I will add a couple of points to what Councillor Parry had said. Local authorities receive probably between 75 per cent and 80 per cent of their funding through national funding, with the balance coming from council tax. I strongly concur on the need to lean into council tax reform. All professional bodies probably align on the need for that.

Councillor Parry articulated the position well. There is no one-size-fits-all solution across the entirety of Scotland, which is why we need a range of fiscal levers and powers that are relevant to a local area and can stimulate and support local communities. There should be a demonstrable link between what is raised locally and the benefits that residents and businesses see locally. The position in East Lothian will be very different from the positions in the Highlands, Aberdeenshire and South Lanarkshire. As I said, there is no one-size-fits-all solution.

Councillor Parry articulated the challenge with the funding settlement very well. We have a funding floor mechanism, which is supposed to address the redistribution element and ensure that no council gets a significant reduction or increase. It is not perfect, but it tries to provide a holistic approach.

In part, the funding formula is a recognition of the fact that many of the services that we deliver are universal, regardless of whether the council is in a rural area, has a growing population or has areas of deprivation. Education is a good example. In specific areas, things can be more costly—Mary Beattie articulated some of the challenges in rural areas—but we all have an obligation to provide education to our children and young people, regardless of the local area and geographical circumstances. In part, that is why the funding formula is the way that it is.

Will we ever be able to have a rebalance between the amount of money that is raised locally and the amount that comes from national funding? Local taxation is important and powerful, but I come back to the point that most of our funding—between 75 per cent and 80 per cent—comes from the Scottish Government, so I do not know whether we will ever be able to meet all the requirements through local taxation, without wider funding from the national taxation system.

Alan Brown: If between 75 per cent and 80 per cent of the funding did not come from the Scottish Government, what would be your aspiration for the percentage for councils to manage under a model that allowed them and residents to take responsibility?

Councillor Parry: COSLA does not have a position on an exact figure, but would local authorities like to have more control of their finances? Absolutely. On the 80:20 split, a lot of the services that councils deliver are statutory, so a lot of the funding is prescribed. As we have discussed, a lot of additional duties and burdens have been placed on top of that. It is an interesting conversation to have, and it might be in the mix during the debate on public sector reform. As is well known, COSLA's position is that we are ready to come to the table to have these discussions. It is important to have that dialogue and to be at the table, so perhaps we will have that conversation over the next few months.

Alan Brown: I have one more question—

The Convener: We have about 10 minutes left for this evidence session, and three other members would like to ask questions. If you are very brief and the answers are concise, that would be helpful.

Alan Brown: Thanks—I realise that I have not been getting far.

In relation to devolving responsibility, the Institute for Fiscal Studies has said that a 2.1 per cent reduction in real-terms funding would equate to council tax increases of 8 per cent. If that 2.1 per cent real-terms overall reduction in funding from central Government equates to council tax increases of 8 per cent, does that not show the risk of trying to rebalance the equation?

David Robertson: You are absolutely right. If councils take on more responsibility for raising their own tax, the other side of the coin is that the risk of that tax not being realised will sit with local authorities.

Liam Kerr: In the interests of time, I will cut to the chase. First, I will ask Councillor Parry about the Government's proposals to reform the council situation. The proposal is to cut the number of authorities to six and to have between 120 and 160 community authorities or other such bodies. Today, several council leaders have been reported as saying that that will not save any money and that the timeline for the process is absurd. Given that our inquiry is about the affordability and sustainability of Scotland's budgeting plans, it is important that we hear what your view is.

Councillor Parry: That is a good question. I make it clear that, as no financial calculations have been done on the proposal, it would be unfair to say that it would or would not save money, because the evidence is simply not there at the moment.

At the moment, COSLA's stance is that any restructuring must be about improving outcomes and public services, rather than simply being a way to reduce the local government settlement. Although I would not go as far as some of the other council leaders have gone, it is difficult to see how the reform that has been put in front of us would not be complex and would not need an up-front cash injection to carry out. However, I point out that, in Monday's letter, the First Minister said that there would be between six and 10 regional authorities, so, as I understand it, a final decision has not yet been made on that.

Liam Kerr: I entirely accept that it is early days and that no financial calculations have been done, and there are a number of voices that would agree that some up-front cash would need to be provided. Today, one council has been reported as saying that the Scottish Government will need to meet those costs. Have you had any indication so far, perhaps from the Deputy First Minister, that the Scottish Government is in the same space in that it thinks that, ultimately, it will have to pump prime the process? If so, do you have any indication of to what extent it might meet those costs?

Councillor Parry: The short answer is no. There is no detail on that as yet. I should also make it clear that no timescale has been laid out. The First Minister and the Deputy First Minister have set out that there will be a three-month window of engagement for us to have conversations about the proposals, and COSLA has made it clear that local government should co-lead the process.

We also want to make it clear that our entering that period of engagement does not represent tacit agreement to whatever the outcome might be or to whatever the Government's final proposal might be. My hope is that the three-month period is used for genuine quality engagement. If we are to redesign local government, that process must be led from the bottom up, not the top down, and it must be about improving outcomes for people. If it happens to save money, that is all well and good, but we must ensure that we retain local flexibility, local accountability and local democracy at the heart of things.

Liam Kerr: I understand. Does anyone else have views?

The Convener: We do not have time to take other views, Mr Kerr. I am sure that that issue is one that this committee and others will come back to, as it extends across the remit of many committees.

Kim Schmulian: David Robertson talked about the distinction in statute between powers and duties. I imagine that, at the moment, you are ignoring a fair few of the powers and placing more emphasis on the duties. Would that be a fair comment?

David Robertson: I do not know that it would be, to be honest. In delivering our aspirations for local people, councils access the whole range of powers available to us, where it is sensible to do so. I am sorry, but I do not know whether I agree with the premise of your question.

Kim Schmulian: When you see consultations on new legislation and you can see that there might be more work for local authorities coming down the line, are you inclined to push back, if you cannot not see a demonstrable benefit for the community?

David Robertson: We would certainly highlight the implications to the Government, when it consulted on passing more responsibility to local government. Through COSLA and other mechanisms, we would highlight the challenges associated with new powers that were coming our way.

Kim Schmulian: Are you aware of any new powers coming down the line?

David Robertson: A range of legal powers have been set out that could be accessed, such as the visitor levy and the cruise ship levy—all that kind of thing—but we look at these things very carefully, locally, before we move to implement them, to understand fully the implications. I will pick on the visitor levy as an example. We are watching very closely what is happening in Edinburgh, because it has already gone live with that. No decisions will be taken on the levy locally until we understand the implications for the Borders.

Kim Schmulian: May I ask a quick question on debt ratios in relation to mergers?

The Convener: If you and the witnesses are very quick.

Kim Schmulian: How could you effect a council merger harmoniously if the debt levels in the different councils are significantly different?

Sarah Fortune: As Councillor Parry indicated, we do not yet know all the details. Once we know more, the fiscal arrangements will absolutely need to be looked at, and those would include debt, workforce and the fiscal sustainability of any new bodies that emerge. Debt is just one aspect. We have been through public sector reform in different guises over a number of years, so these things are not impossible, but, as one of my colleagues indicated, we clearly all understand the fiscal challenges involved. There are opportunities to look at public sector reform in a positive way, and understanding the fiscal implications of any reform will be a clear workstream that we will need to lean into.

Pauline Stafford: Lorraine O'Hagan, on alternative finance approaches, South Lanarkshire Council's submission referred to local government bonds. The Scottish Government is looking at its own national bond programme, so do you have details about what the benefits of local authority bonds might be over a national programme?

Lorraine O'Hagan: I do not think that I have anything in particular to highlight on that. Our overriding point on any alternative to our routine financing is about affordability and ensuring that we have the finances in place for a budget strategy to do that in the future. We would need to consider the risk side of anything that is different from our normal financing approach for capital projects. On my way here this morning, there was talk about global bond markets and forecasting increasing costs and levels of risk, so it is all part of the sustainability agenda—ensuring that the repayment profile is sustainable and manageable as we move forward.

Councillor Parry: Your point about bonds is interesting, and I want to explore the fact that local government is looking at creative ways to bring in its own money. We are looking at income generation, and you are very welcome to come to Midlothian and jump on the Alpine coaster, which is a council-owned facility. It was a huge risk for us at the time to develop that, but I just want to highlight that extra element—councils generate their own income, and some are being very inventive about it, which is to be applauded.

The Convener: I have a quick question, and I am looking for a one-word answer. The committee has heard repeated calls for reform—we have talked about that a lot today. What is the number 1 specific reform that should have happened by now but has not? If you are unable to answer that, that is fine.

Sarah Fortune: A review of council tax is absolutely critical.

Councillor Parry: I agree.

The Convener: That issue has certainly been raised in previous evidence sessions. I thank the witnesses for their attendance and very informative contributions to the discussion. I will briefly suspend the meeting for a change of witnesses.

10:45

Meeting suspended.

10:55

On resuming—

The Convener: The committee will continue its evidence taking on pre-budget scrutiny 2027-28, on the affordability and sustainability of Scotland's tax and spending plans.

I welcome to the meeting our second panel of witnesses: Ashley Campbell, policy and practice manager, Chartered Institute of Housing Scotland; John Dickie, director, Child Poverty Action Group Scotland; Karen Hedge, deputy chief executive officer, Scottish Care; Jason Henderson, policy and public affairs officer, Scottish Council for Voluntary Organisations; Michael Kellet, director of strategy, governance and performance, Public Health Scotland; Claire McPherson, director, Universities Scotland; Dave Moxham, deputy general secretary, Scottish Trades Union Congress; Sarah Roughead, chief financial officer, Police Scotland; and Andy Witty, director of strategic policy and corporate governance, Colleges Scotland.

Before we begin, I remind witnesses not to worry about turning on their microphones during the session, as they will be controlled by broadcasting. If you wish to come in on a discussion, please raise your hand or indicate as much to the clerks.

We have around 75 minutes for this round-table session, and the format is intended to allow more of a free-flowing discussion instead of our having a formal question-and-answer session. Therefore, I ask that we keep our contributions concise in order to maximise the time that is available for everyone to participate in the discussion.

We will move to questions, and I will kick off with a broad question that I hope will stimulate the conversation. What is your overall assessment of the Scottish Government's public service reform strategy and the public service reform measures that were announced in the recent programme for government? In particular, do the proposals represent a credible and sufficient response to Scotland's long-term fiscal and demographic challenges?

Who would like to start? Karen Hedge?

Karen Hedge (Scottish Care): I will take the question if no one else wants to come in.

I am happy to share with the committee a briefing that Scottish Care has put together on public service reform. In principle, we agree that reform is necessary, but the proof of the pudding will be in the eating. The consultation process, which will seek the views of the social care sector and other organisations that are involved on what public service reform will look like at the end of the day, will be really important. We know that we need to shift towards preventative care and support; if we are to have a sustainable Scotland, we need sustainable social care. From that perspective, we are really pleased that work is being done in this area and on making these changes.

We also know that from the perspective of the independent sector—that is, private charities and employee-owned organisations—one of the huge challenges facing social care support in Scotland is ethical commissioning and procurement. During the pandemic, we had the opportunity to work with NHS Scotland on the procurement of personal protective equipment, and we found the process to be incredibly supportive and helpful. We think that there is a lot of learning to be done if we are to change the current models and work more closely in a system that, from the viewpoint of the individual citizen of Scotland, needs to be really holistic and integrated.

How we do this will need to be citizen led, and we need to look at the touch points for individuals, how they access care and support at different points throughout their lives, and how the services organise themselves and communicate. There are really great opportunities for service and system redesign, particularly with regard to data and clinical governance sharing. At the moment, we see a lot of waste in both areas, which results in system delays and prevents people from getting the right care and support in the right place at the right time.

It is really important that we are looking at all of this, but, as I have said, the proof of the pudding will be in the eating when it comes to how we work together as a system and ensuring that whatever we have at the end of the process works.

11:00

The Convener: Andy Witty, do the proposals represent a credible and sufficient response?

Andy Witty (Colleges Scotland): Although colleges were not mentioned hugely in the programme for government in relation to reform, their interaction with local authorities and the NHS will be critical because of the pathway between school and college and the training that colleges provide for the NHS. The issue is how that reform is undertaken. The majority of the written evidence from the members of this panel talked about reform requiring up-front investment.

The college sector has already reformed. It has been reforming since regionalisation. Staffing numbers in the sector have gone down 13 per cent while, across the public sector as a whole, they have gone up 12 per cent. That reform has been forced on the sector by the cuts to funding. That is not the way to do ordered reform.

I am pleased that the college sector of the future workstream, which is a 12-month programme of reform, is under way. It allows for a well-ordered approach to reform. We have already engaged with 100-plus external stakeholders on what Scotland needs from the college sector in future. Because of the boundaries and interconnections, that will play into the reform to local authorities and the NHS reforms as well.

We are carrying out a number of initiatives that are linked to public service reform to enable those changes to happen, but the up-front resources needed for successful reform are really important.

Sarah Roughead (Police Scotland): The context of each organisation and body is important. Policing is not starting reform; we have reformed. We completed significant structural reform with the creation of the national police force, which has taken £2.5 billion of expenditure out of the system and saves about £300 million a year. That has been recognised, but we are not resting on our laurels. The structural reform is done and the next phase of reform is about digital transformation. That requires investment, which will allow us to create reform not just within policing but across the justice sector and more broadly.

It must be recognised that investment is required. We are wholly supportive of the programme for government being ambitious but there is a delta between that and the reality of what we are allocated in the Scottish spending review.

Ashley Campbell (Chartered Institute of Housing Scotland): In the housing sector, we recognise that the Scottish Government has some really difficult decisions to make on funding over the coming years. We have a huge change in demographics and an ageing population. The housing emergency is not going anywhere quickly.

We also appreciate the focus on prevention and the need to get better value for money from every pound that the Government spends. However, we fully believe that housing is part of providing that value for money and is key to the prevention agenda. Housing provides value for money day in and day out, particularly affordable housing.

Last week, we published a report with partners from across the housing sector on the impact that housing has on supporting good health and wellbeing. We know that the Government wants to increase care in the community and keep people out of hospital. We know that that provides better value for money and housing is key to doing that. It improves health and wellbeing, tackles poverty and inequality and keeps people in their communities.

We fully support more investment in housing to deliver the new homes that people need in order to tackle homelessness. To ensure that people are living well, those homes need to be of good quality. They need to be free from damp and mould to ensure that people do not suffer from respiratory issues and other health conditions that are linked to poor-quality housing. Keeping people out of hospital and in their communities provides the best value for money.

Dave Moxham (Scottish Trades Union Congress): First, as a whole, the public sector reform agenda underestimates and understates the increasing demand—not just here but across Europe and the United Kingdom—and it therefore underprioritises revenue raising in its overall strategy. Secondly, it is difficult to say whether the programme that has been forward is supportable, because we do not really know enough about it. The detail is scant.

Every sector that speaks will mention investment-led reform. Whether we look at local government reform and unification in the 1980s and 1990s or at other significant reform agendas, they have always included up-front costs, not least because you very often have to run two services in parallel, at least for a short period. If we look at the trajectory of the expected cuts over the three or four-year budget period and how they are staggered, and then compare that with the potential savings, if, indeed, those can be realised at all, we see that they are a mirror image of each other.

That leads to our concern that, although the tin will say “public sector reform”, inside it will be cuts, because you cannot deliver the kind of savings that you want within the timescale that you think you can achieve under the current strategy.

Michael Kellet (Public Health Scotland): It is important to broaden the debate, because much of the debate on the programme for government has been about structural reform, which is key. Public Health Scotland welcomes the priority given in the programme for government to prevention and the recommitment to delivering the population health framework because we are convinced that that is vital to sustainable public finances moving forward. We particularly welcome the creation of the prevention unit at the heart of Government, and the commitment to a Scottish prevention investment framework, building on the work on preventative spend.

In previous evidence sessions like this one, I have given evidence to the committee on the community first agenda that is captured in the programme for government. The detail on page 71 of the programme about health and care hubs feels very progressive from our perspective, and we are keen to help shape and deliver those.

Finally, there are many important messages in the programme for government on violence against women and girls, obesity, tackling drugs and alcohol, and sport and physical activity, all of which contribute to improving population health. It is important to understand the broader direction of the programme, and not just the focus on structural reform.

John Dickie (Child Poverty Action Group): The context is that we have a Government that says that eradicating child poverty is its national mission and top priority, and we have a Parliament that is committed to child poverty targets. It is critical that public service reform and the programme for government clearly set out how they will contribute to achieving those objectives. There is no better example of preventative investment and spending than investing to reduce and eradicate child poverty.

The general framing of the public service reform strategy, including the focus on prevention as a key pillar, the recognition that investing to reduce child poverty is preventative spending and the recognition that the Scottish child payment is an example of a key reform success, is welcome. However, the reality is that the strategy and the subsequent programme for government are not adequate to achieve the child poverty targets, never mind eradicate child poverty.

It will be critical to redouble efforts and ensure that every aspect of public service reform is proofed for its impact on low-income families with children, and that we take advantage of opportunities to improve services. There is no question that there are ways in which we can redesign and reform services in the interests of low-income families and children and make them easier to access. We also need to ensure that we are using this opportunity to prioritise investment in the areas that we know will reduce child poverty and prevent the costs that child poverty imposes on the public finances and on society as a whole.

The Convener: I thank the witnesses for their punchy and to-the-point answers so far, because we have a lot to get through.

Liam Kerr: As the director of Universities Scotland, does Claire McPherson have comments?

Claire McPherson (Universities Scotland): I wanted to make the point that, although universities are not part of the public sector or captured in the public service reform agenda, we see ourselves very much as core partners in the Government’s drive in that area, not only from a workforce perspective, given the significant role that universities play in delivering workforce for the NHS and local government, but from a research, innovation and knowledge-exchange perspective.

Following the election, we ran a really successful campaign on the sector’s role as a universal partner, which demonstrated the day-to-day relationships that the sector has with justice, health, local government and other areas. A lot of knowledge exists within the sector, including about what works, what could be done to improve outcomes and how to focus on preventative spending.

We were pleased to meet Mr McKee, the Cabinet Secretary for Public Sector Reform. We are keen not only to see more detail on the theory of change, but to make the case that the sector could play a really significant role in understanding the outcomes that people want to achieve and how we could support their delivery across the country.

The Convener: My apologies for missing you out.

Liam Kerr: I will come back to Universities Scotland and, indeed, Colleges Scotland later, after colleagues have come in. Before doing so, I turn to you, Sarah Roughead, on some of your earlier comments, which were important. Your submission talks about the reforms that you have already undertaken and specifically says that

"Policing in Scotland has already been recognised as an exemplar of public service reform".

Clearly, one would have thought that that experience would be key to the current proposals. However, you also said that you have already delivered around £2.5 billion of savings and that there is a further £300 million a year on top of that.

I was on the Criminal Justice Committee in the previous parliamentary session, and Police Scotland told us that there had been numerous issues with the legacy IT systems when the eight forces were brought together. Indeed, you have only very recently established a single crime-recording system. What should the Government have learned, or be learning, from your successes and challenges before it embarks on another major restructuring of public services?

Sarah Roughead: There is lots of learning. To your point, the structural reform—predominantly a significant reduction in head count—created significant savings. A key learning is the need to focus on enabling functions as well, such as the digital systems and automation. We are still dealing with that now. We underwent our structural reform, continued our reform journey through digital transformation and, since 2020-21, have continued it in the areas that you have indicated. For example, the digital evidence sharing capability program has saved 2.2 million hours, which is a huge amount.

At the same time as demand increased and we recognised future pressures, there were budget reductions in officer numbers. That has meant that we have been able to create sufficient efficiencies to meet that demand. However, demand is now not only increasing but becoming more complex. The learning is to think not only about front-line services but about end-to-end service delivery and the systems that support it, and to set up the best systems for the future to create space for preventative measures and capacity. People are our greatest asset in creating that capacity and enabling a shift towards prevention. Those are really key lessons.

However, yes, investment is still required. Although we have been recognised as frontrunners in delivering that structured reform, it has been recognised that some investment should be returned to the system, and we have not seen that. That is where we are now. We want to create that justice-wide reform but we need investment to do so, because the capacity that we have created has been overtaken by current and future demand.

Liam Kerr: I will stay on exactly that last point, because I was quite taken with something that Dave Moxham brought up. You have saved £2.5 billion, you have recurring £300 million savings and you mentioned a significant head count reduction over the period of, I guess, 12 years—

Sarah Roughead: Yes.

Liam Kerr: However, 86 per cent of your costs are currently pay related.

Sarah Roughead: Correct.

11:15

Liam Kerr: These are my words at a previous committee, so tell me if I am incorrect, but there is a desperate need for capital investment to continue your improvement. Can policing realistically be expected, in another round of reforms, to make any further cuts without impacting service? Alternatively, is it the case that you have done as much as you can within the current funding envelope and that, really, what you need is more money up front? Given that we are looking at budget plans over the next few years, that is crucial.

Sarah Roughead: Agreed. We are at a juncture, in that we are seeing increasing demand. You are correct that 86 per cent of our cost base is workforce costs. On top of that, we have a large estate, which is another fixed cost base to an extent, with leases, contracts and committed spend. Therefore, we have incredibly little headroom in the remaining percentage of our budget to make space and provide funding for further transformation. We need to improve our legacy systems, which will undoubtedly cost more. It involves a shift from legacy systems with one-off costs to recurring software-as-a-service licensing, which is counted as resource. That is an uplift in itself.

In addition, although we have met demand, we are getting to the point at which transformation benefits are not creating necessary cashable savings. We are looking at better outcomes, capacity, productivity and preventative spend, all of which are critical. The Scottish spending review indicates that we are in a flat-cash position for future years, and we have been explicit with our colleagues in Government that that is not achievable. It is not sustainable and would equate to significant workforce reductions with significant and serious service-delivery implications. We will always look after our communities and respond to threat, harm and risk, and we will have to prioritise that. In a flat-cash funding scenario, the service would probably move more to being a response service rather than a preventative one.

Liam Kerr: I understand. I will come back to the spending review with others later.

Kim Schmulian: Sarah, you mentioned preventative spend. Could you elaborate on what you are looking at on that?

Sarah Roughead: I do not want to stray too much into the operational policing narrative, but, on preventative spend, we are very much looking forward. As demand increases, to meet it we have to prioritise our service and response towards dealing with threat, harm and risk. When we think about preventative spend, we are looking at policing for our communities. That is about community cohesion, being close to communities, understanding them and having the available time and space to work in our communities. Critically, we are also thinking about violence against women and girls, which is a societal issue that needs to be addressed.

A combination of officers and staff in both of those areas can do the preventative work that will reduce future demand and provide justice-wide support for communities and victims. That is where we are talking to our colleagues about preventative spend and where that would create the best outcomes.

Kim Schmulian: That is interesting. I have spoken to a number of police officers recently, and they say that they are now primarily office based and are not out and about in communities, interacting in the way that you suggest they should be. Do you see something changing on that?

Sarah Roughead: In our budget submission, we are asking for investment for next year and over the period of the medium-term financial plan, to address those issues. I note that policing has changed in terms of the complexity of crime. That is where part of the reform journey continues through what we call workforce modernisation. It is not just warranted powers that we need, necessarily; we also need new skills and capabilities. Because of the way in which crime is changing, we need, for example, digital forensic and science capabilities. I know that that is different from having front-line warranted officers, but both need to work hand in hand across the whole system. That is how it works. It is not a pick and mix—it needs a whole-system approach.

Kim Schmulian: I understand. Thank you.

Jason Henderson (Scottish Council for Voluntary Organisations): I actually wanted to come in earlier on the general question of public service reform. For the third sector as a whole, the first step that we need to take before we look at the ins and outs of preventative spend and other such things is to acknowledge the role that the sector plays, as we are still a few steps away from that. Far too often, the third sector is a little bit overlooked with regard to its impact, certainly when it comes to prevention. I imagine that everybody here would acknowledge that the third sector is a really key partner in prevention and early intervention, certainly in public services. If voluntary organisations are not already providing a large number of public services across communities, they are often plugging the gaps left as a result of public service cuts.

Therefore, before we even talk about public service reform, we need to know the role that the third sector plays in that respect. The high-level commitments are welcome, but, until we can see that the third sector will be a valuable partner not just in what comes from public service reform but in the design of that reform, it is really hard to judge things from our own perspective. We need a real understanding of the pressures that are on the third sector in general, particularly around the funding landscape. Until we can get those things right and until we have the sort of secure and sustainable third sector that we currently do not have, we will not meet any targets around, say, child poverty, prevention or whatever.

Andy Witty: Building on the comments about preventative spend, I think that, ultimately, we need to look at how expenditure that is made today increases future capacity in respect of employment, earnings, productivity, tax revenue and so on. Jason Henderson just mentioned child poverty, and, in that respect, preventative spend is really key and important. The colleges received additional money from the RISE—raising income through skills and education—fund specifically to recognise their role in alleviating poverty through training people either to get a better job or to start work and start earning. That is preventative spend in its purest form. Given the tight fiscal environment, we need to look at where any preventative spend is being made.

A report from the Fraser of Allander Institute and the Nuffield Foundation that came out in March showed that colleges contributed a net positive benefit to the Scottish economy of £195 million between the tax revenue that was raised and the reduction in the benefits bill. When that sort of funding is given to colleges, the potential for that kind of preventative spend becomes really clear.

Our challenge—and this is borne out by figures from the Scottish Funding Council that Audit Scotland reported on just a few weeks ago—is that there are 40,000 fewer students at Scotland's colleges now than there were two years ago, and colleges are still facing a 7.5 per cent real-terms reduction in funding even with the above-inflation rise that we got this year. When we think about the lost opportunity costs of those individuals—this plays into the not in education, employment or training, or NEET, agenda, too—that above-inflation increase needs to be seen as a down payment. If we consider those Audit Scotland figures, we see that the 7.5 per cent real-terms reduction and a flat-cash settlement for colleges next year would result in a crisis. Some colleges would become insolvent, there would certainly be job losses, and there would be no capacity to reform in line with the college sector of the future initiative, because there would be no headspace. A flat-cash settlement would be a catastrophe.

The irony is that, at the very point that Scotland needs its colleges to train up the workforce for the future—and, as the independent research shows, to prevent people from falling into poverty—they are at huge risk. The sector will be wobbling. The committee heard from David Bell just a few weeks ago that we need to act on the underfunding of the college sector. When it is properly funded, the opportunities are huge for delivering what Scotland needs, whether as the default provider of vocational and professional skills or in supporting the prevention agenda and the reform agenda.

The Convener: Forgive me if I am straying into the Education and Gaelic Committee's remit in asking this question on the reform of colleges so far. I am aware that colleges across Scotland have been amalgamated. Do you know the current total cost of the principals of all the colleges in Scotland?

Andy Witty: I do not have that figure to hand, but I can provide it to you in writing.

You are right in saying that the reform has already happened. Back in 2014 and 2015, there was regionalisation and a series of college mergers. That is why I was saying earlier that reform has already started and that the college sector has already had to reform.

There is a contrast between reform that is driven by cuts and reform that is driven by the need to deal with a 13 per cent reduction in staffing numbers set against an overall 12 per cent increase in the public sector workforce. When you look at the indicators, colleges are still very strong on satisfaction ratings and on students reaching positive destinations. However, as many witnesses have said, there are lots of unintended consequences when you reform through cuts rather than through up-front investment. That is why the college sector of the future workstream's starting point is asking what Scotland will need from its colleges in 10, 15 or 20 years' time and how we can enable that to happen. It is a crucial workstream, because it is following the evidence rather than jumping to conclusions. It is seeing where the evidence leads.

The Convener: We are really straying into the Education and Gaelic Committee's territory here. However, it would be very helpful for the committee to know how many managers there are in Scotland's colleges and the cost of that senior management.

I will bring in John Dickie and then move on to Kim Schmulian, who has a question.

John Dickie: I want to build on some of the things that Andy Whitty said about how important it is that we invest in those areas where we will have the greatest impact in reducing pressure on public services in the future.

I will give a bit of context to that. Work done for CPAG by Loughborough University found that the costs of child poverty across the UK amounted to £40 billion a year in additional public spending to pick up the pieces and manage the damage that poverty causes, as well as in lost revenue from lower tax receipts and the fact that children who grow up in poverty are less likely to be in well-paid jobs. In Scotland, the Institute for Public Policy Research found that £2.3 billion a year is spent by health boards in addressing the impacts of poverty. The public service reform strategy itself estimated that, if the child poverty targets were met, £2.9 billion of public spending could be avoided.

It is critical that we do not make choices now that will cut interventions and undermine progress on child poverty. Instead, we must build on what we know works to prevent child poverty. Absolutely key to that has been the investment in social security, including the Scottish child payment. If we are serious about making further reductions in child poverty and further reducing the long-term costs of poverty, we need to invest more in the Scottish child payment and in financial support for low-income families and children, alongside investment in childcare, education and housing.

I just wanted to highlight the sums that are involved and the need to invest rather than make short-term decisions that could undermine the long-term interventions that are needed.

11:30

Kim Schmulian: Andy Witty, the economists who gave evidence to us told us that we could grow the tax base by diverting young kids who are leaving school from going on to benefits and by retraining people over 50 who retired early but do not have a sufficient pension, so that they can get further employment. I think that I am correct in saying that the First Minister mentioned that in the programme for government. How can colleges focus on those sectors and develop plans and initiatives to get people through the door, given the funding cuts to date? Is more funding inevitable if you are to achieve some success in that regard?

Andy Witty: The wonderful thing about colleges is that they are for people of all ages. They are there for younger people at the start of their educational journey, or to allow them to continue that journey, and they are also there for people who want to upskill or retrain throughout their life, which is particularly important given the number of careers that, it is said, individuals will have now. The opportunity for lifelong learning almost provides a guarantee that, if somebody, at whatever point, desperately needs a college because they have been made unemployed, have had to change career or are in poverty, college will be there for them. Everybody should have the opportunity to engage positively with their local college at some point in their life.

The challenge is that, in the past two years, we have lost 40,000 college places because of cuts. Although the above-inflation funding increase that the college sector received last year was welcome, Audit Scotland tells us that there has still been a 7.5 per cent real-terms reduction over the past five years. That means that colleges are wobbly, and they will continue to be so unless there is continued above-inflation investment, which is preventative spend, because it is clear that the money is well spent. Colleges educate and provide skills for people so that they can become the workforce of the future. They also do work in the community and fulfil the role of community anchors, because they are trusted institutions in their local communities. That means that colleges provide many different opportunities to help people.

What has happened to those 40,000 people who did not get a place? They might have found a job, they might have gone to another college or they might have become someone not in education, employment or training. We do not know, so there is a challenge relating to data and how we look at the issue.

For many people, if they have not been able to get into their local college because it did not have the money or the capacity to offer them a place, that might have been their last positive and confident opportunity in their geographical area. That presents a challenge for those individuals.

Kim Schmulian: I am personally aware of the amount of pastoral care that colleges provide to students who need extra support. Do you build that into your budget, or is your general staff pool just expected to provide that support?

Andy Witty: You are quite right in saying that colleges are particularly strong in providing students with pastoral wraparound support—it is part of their DNA—sometimes because of the cohort of individuals who are there. We have fantastic staff who can deliver such support. The challenge is that, when there are funding cuts, colleges have to make tough, heartbreaking decisions, some of which affect that support. Colleges cannot offer as much support as they would like to offer, which has an impact on the opportunity for individuals to successfully make it through college. It is a credit to college staff and management that, despite all those challenges, the statistics show that the number of positive destinations is still high and positive satisfaction rates with colleges are still high.

Pauline Stafford: My question is for Michael Kellet, and it is on preventative spend in Public Health Scotland. We often hear about the recurring challenge of the costs that preventative spend incurs now, when we might not realise the benefits for many years.

I am a member of the Europe, External Affairs and Culture Committee, so I know that it has had some discussions about increased investment in culture having long-term health and wellbeing benefits. However, the benefits are often quite difficult to measure. What are your thoughts on the role that the 2027-28 budget could play in addressing that, alongside the medium-term financial strategy, and on the data that Public Health Scotland could provide to support such investment?

Michael Kellet: It is key to recognise that not all preventative investment takes a long time to pay back. We have clear evidence that some interventions—for example, the funding that goes into vaccines—bring a quick return on the investment. Similarly, preventative regulatory investments, such as the smoking ban, get returns on the investment very quickly.

However, the point about being able to invest for the long term is important. Yesterday, I spoke at a conference in Dynamic Earth, which was organised by Voluntary Health Scotland, about the power of social prescribing. Culture plays an important part in that. Social prescribing also combats social isolation and connects people with those who can help with housing and other issues, and people who visit their general practitioner can access such support in that way.

Investment in social prescribing and community link workers in Scotland is relatively modest, although it has grown and there are now about 340 community link workers across Scotland. That is an example of an investment that pays relatively quick returns. The work on the preventative investment framework—particularly primary prevention investment—and the work to identify and understand what such investment is and to track it over time will be important in protecting that investment.

We should not dismiss the pressure on colleagues in local government and in the NHS to deliver services while balancing the budget books each year. I heard witnesses on the previous panel talking about that.

Pauline Stafford: That is really clear.

Let us go back to a point that local government and COSLA made in the previous evidence session. A lot of what they do could be considered preventative spend. Do you think that we have a clear picture of what preventative spend is?

Your submission mentions that Enlighten's "Prevention in Scottish Public Service Reform" report has three tests. The submission states that those are:

> "Does it shift power or control towards communities? ... Does it build capability rather than manage dependency? … Does it disrupt, rather than reinforce, siloed structures?"

The report claims that spending should meet at least two of those tests to be considered as being truly preventative. Do you think that more work needs to be done on that?

Michael Kellet: I think that it does. The paper by Enlighten, which was written by Des McNulty, who was the convener of the Finance Committee in the past, is an important intervention. It argues that, although understanding the level of preventative spend over time is important, it is not enough. In order to deliver what was suggested by the Christie commission, we need to understand the approach to prevention, and the three tests that the paper sets out are important.

We have been engaging with the author of the report and have had discussions with colleagues in the Scottish Government's prevention unit about whether the paper can inform the prevention framework. We think that that work is powerful because it is about not only what we are spending but whether that spending empowers individuals and communities to improve their health.

Dave Moxham: I will go back to the point about labour market participation and the important role that colleges and wider employability services can and should have in Scotland for the two categories of people you spoke about. As this agenda goes forward, and as we consider some form of regional economic empowerment—we do not really know what it is going to look like—a useful discussion that the Government can have with Westminster is about the further devolution of powers relating to employability. We do not say that just because we love devolution. We say that because we can see a tangible way of bringing those services together in a way that would work and in a way that would work better with some of the other infrastructure that we are talking about.

I realise that this will not be welcome to everyone here, but I also have to say that any medium-term look at the rebalancing of Scotland's communities and population needs to take account of the positive effect that migration can have. We would suggest to the Scottish Government that, as part of the public service reform agenda, it should have active discussions with Westminster about whether certain powers, as advocated by us and by business, could be devolved in order to effect the medium to long-term rebalancing that we all need. If we are to have a sufficiently sized economy to fund our public sector needs, that will be vital.

Ashley Campbell: I have a comment to make about the provision of wider support and the value that that provides. In housing, it is difficult to put a total value on prevention, because there are so many different aspects that housing touches on. Whether it is in relation to education, employment opportunities or health and wellbeing, housing does an awful lot. It is easier to put a value on the bricks and mortar, because we know how much it costs to build a home.

Public Health Scotland and the UK Collaborative Centre for Housing Evidence recently published research that said that poor housing costs the NHS £530 million per year as a result of conditions such as respiratory illness, cardiac illness and accidents in the home such as trips and falls. Audit Scotland estimates that delayed discharge costs the NHS £440 million per year. Therefore, we know that poor housing and poor housing services cost money, but how much value is added by housing services—the additional, non-statutory services, which are vulnerable to cuts—can be overlooked.

Our "Scottish Housing Day Report", which we published last week, includes a great example, which has been spoken about in Parliament. Whiteinch and Scotstoun Housing Association runs a community centre in Glasgow that provides a place for people to get together to build social networks that improve the social fabric of our communities. It provides training, skills and employment services, as well as debt advice and coffee mornings. It runs food banks and community food groups to teach people how to cook healthy meals. The association is a lifeline for that community that provides a huge amount of additional value beyond just the bricks and mortar of the homes. Sometimes we are not good at calculating or demonstrating that additional value. Those are the types of services that become vulnerable when we squeeze services too much.

For our report, we surveyed housing practitioners, who spoke about the fact that they are so stretched just trying to do the day-to-day jobs that they do not have the capacity to do proactive outreach, which means that people come to them when they are already in crisis—when they are in debt or are struggling to pay their rent. They are not able to do the upstream prevention work because they are so tied up in the day-to-day work. They are dealing with more complex cases, which involve people who are not getting mental health support or who are struggling to get input from social services and other partner organisations that have been dealing with cuts to their services. All of that lands at the door of housing, because it is the last resort for people. That is difficult for the individuals concerned, but it is also difficult for housing staff, who are not trained in mental health support or other types of intervention. They do their best with what they have, but they say that they are really struggling because of cuts elsewhere, which is leading to poorer outcomes for individuals. There is information in our report about the vicarious trauma that housing staff are experiencing because they are dealing with difficulties on a daily basis.

My point is about those additional services that do not always get recognition but which provide some of the best value for money.

Alan Brown: I will stick with preventative spend. Karen Hedge will say that extra money for care is a form of preventative spend because it saves money on primary healthcare. Sarah Roughead wants more money for preventative spend, which she hopes would lead to savings through a reduction in crime. Ashley Campbell has outlined the need for extra investment in housing as a form of preventative spend. Andy Witty wants extra money for colleges, as that is a form of preventative spend that helps to get more people into work. Claire McPherson might argue that the provision of additional money for universities to help young people from disadvantaged backgrounds to get into university is preventative spend. Michael Kellet has outlined the need for extra spend on health outcomes. John Dickie would say that putting extra spend into eradicating or reducing child poverty is the right thing to do and that it brings savings. I suspect that Jason Henderson would say that everything that the third sector does is some form of preventative spend.

If I am the finance secretary, with a £2.6 billion gap in revenue funding by the end of this session of Parliament, what do I do? Nobody can argue against preventative spend, and I have made a case for each one of the witnesses. How do I rebalance the budget to get extra money into preventative spend that is sustainable and realises the savings?

11:45

Andy Witty: It is important to follow the evidence and see where it leads. It is about making decisions today that will genuinely increase people's employability opportunities and earnings and the tax base. Alan Milburn's recent interim report—we are still waiting for the final one—pointed out that colleges have been significantly weakened by funding cuts but are the main sector for vocational education and preparation for work. It is about looking at where preventative spend has its biggest impact.

We need to recognise the growing evidence of a shift in public opinion. A recent YouGov survey that we commissioned showed that 67 per cent of people back prioritising technical vocational qualifications—what was called hands-on, job-specific training. As Michael Kellet pointed out, preventative spend does not need to take a long time to work through. If you train somebody on a short course and they can get a better job or a first job, you immediately see the payback from that preventative spend.

We need to follow that evidence. The IPPR has published a report that is very reflective on preventative spend and the impact for NEETs. Andy Burnham realises where the spend needs to be—he says that it is as much about the hard hat as the graduation cap. We need both, but there is a recognition of and a shift in evidence on where the real preventative spend impact is in the economy.

The Convener: Almost everyone has indicated that they want to come in on that question. Alan, can you take people in turn? Perhaps we can keep the answers brief.

Alan Brown: I suppose that the thrust of my question is this: everyone can argue for more preventative spend, particularly for their sector, but what does the Government need to do differently to move money into preventative spend?

Michael Kellet: I will try to answer. My first point is that I am glad that I am not the finance secretary, because that is a very difficult task. This might be surprising, but I am not arguing for more money for the NHS. The IFS has projected that, if current spend, particularly in the NHS, continues, all our public services will become unsustainable in the relatively near future.

My call would be that we need to use the resources that we have differently. Part of that is about reform, and part of it is about encouraging, supporting and potentially requiring public services, particularly those that work locally, to eliminate the barriers and to create a sense of shared endeavour so that they work differently together to deliver for the people they serve. That applies nationally, too.

I have one specific example. Public Health Scotland has worked with Michael Marmot and the Institute for Health Equity to bring Marmot communities to Scotland. We have programmes in three areas—North Ayrshire, Aberdeen and South Lanarkshire—which are two years old. No extra investment is going in, but together we have supported local leaders to be empowered to do things differently. We are beginning to see evidence of change around supporting people into employment, tackling long-term addiction issues and other areas. That sense of empowering the resources that are already in place to work differently to eliminate barriers is a key part of how we make the finances sustainable for the nation on an ongoing basis.

The Convener: We will work our way round the table, so Claire McPherson is next.

Claire McPherson: Alan Brown's point is compelling. Everyone will make the case for spend in their sector, because there is a legitimate case to be made.

The other side of the coin, though, is that—this is where our sector's pitch comes from—we also need to grow the pie. This cannot just be a rationing discussion. We need to think about economic growth. We need to think about how we create more opportunities for people to pay their taxes, contribute to society, build their own businesses and create opportunities in communities across the country.

An investment in education, whether in colleges or universities, is an investment in people. We provide huge amounts of vocational education in universities. I had to mention that, because it is often forgotten. Architects, engineers, quantity surveyors and planners all come from our sector. It is a vocational as well as an academic space. Such investment enables people not only to move themselves out of poverty and contribute to their communities but to generate economic opportunity.

The biggest issue is that, rather than simply discussing how we distribute a reduced amount of money, we need to have a parallel conversation about how all of us collectively help to generate the growth that is required to increase that pot and make those decisions over the next five to 10 years much easier. We cannot satisfy ourselves that the quantum going into any of these sectors is sufficient, and something must change.

Universities are engines of the economy across the country. Whether it is investment in the research base for scale-ups and start-ups or investment in individuals, it delivers significant benefits. Migration was mentioned earlier. We attract significant levels of international talent to Scotland, which is hugely important in addressing our demographic challenges. We have to think about investment as well as spending, and I think that that is the case for many sectors.

Dave Moxham: I will return to my first theme. The simple answer to the question is that the cabinet secretary will not manage this; rather, he will have to make significant cuts and will not be able to invest in the way that we are talking about. Pretending otherwise is a mistake unless we—not just the Government but the whole of the Parliament—have an honest discussion with the Scottish people about the need to raise revenue in order to make those investments. I agree that some of it can come from economic growth. However, I will be the first person to mention taxation. If we want to invest in a legitimate care service, which over time would probably be the single biggest preventative intervention that we could make, we need to stick money in it.

We need to be honest with the Scottish people about that. We need to stop pretending that we can rearrange the deckchairs on the Titanic. I wish that I could be more gentle about it, but I cannot, because I think that we are looking at cuts upon cuts upon cuts in the period ahead. The strategy is at risk of going completely out the window, because we will not know where the cuts should fall and we will not have the money to invest in the way that we need to in order to effect the real reform that I think we all agree can be delivered through investment.

Karen Hedge: Thanks, Dave—I am not sure how I will follow that. You are absolutely on the button. However, efficiencies can still be made in the system, and some of the measures that are outlined in public service reform will help us, alongside some of what Mike Kellet was describing.

The work to enable a clear, accessible pathway into and out of social care includes looking at digital and data sharing so that we can enable people to live independently for longer. The focus on ethical commissioning and procurement enables us to consider how we plan multiyear investment, particularly into our workforce capability. Too often, I hear stories where there is unmet need and care providers recruit people into those services, only for the local authority to stop commissioning and procuring services because it does not have the funds to follow through. As a result, those organisations then have to let people go. We really need to consider how to provide multiyear investment.

As I mentioned previously, there is a lot of waste around clinical governance, so if we think smartly about that, there is an opportunity for savings there as well.

I want to highlight the economic contribution that social care makes to Scotland, which the Scottish Social Services Council report puts at around £5.2 billion. That is no small feat. For every pound of public money that is spent, there is a return of £1.98, so it is worth considering that. That is not to the detriment of the other people and organisations around this table. We need to come together to think about this, and part of that is about how we are sitting in our workforce and skills space.

I want to come back to your question about tax-raising powers. Behind every budget line, there is a person at home trying to live independently and with dignity, but there is also a loved one or family member caring for them. Sometimes that means them leaving work, and the gendered lens of the issue means that more often than not, that person is a woman.

How can those women stay in the workplace supported by social care? How can social care enable people who are accessing care and support to continue to work? Can it be available at times and in ways that can enable them to do that? Often, the way in which it is commissioned and procured means that it does not fit around working hours. We need to think creatively in that space to enable people to contribute back to the economy of Scotland.

Finally, I want to talk about how the preventative investment framework, or budget tool, as we have been calling it, will enable us to do that. A lot of that preventative budget tool offers the transparency that the system so badly needs to help us to follow the flow. Where is spend happening, and how does that enable individuals in Scotland to thrive? It enables us to take that longer-term plan that the system so badly requires, and that longer-term investment is what will enable us to work our way through this situation.

Jason Henderson: Michael Kellet made the point earlier that he was not calling for more funding, and that is certainly the same for us. That is not to say that the third sector could not use more funding. I am sure that many organisations would benefit hugely from that, but the third sector in general is not in a great way.

There are many external factors behind that, such as the cost of living crisis and the rising cost crisis. Around 60 per cent of organisations have reported rising demand at the same time as there are funding cuts or stagnant funding. Policy decisions can impact the sector as well. The UK Government increase to employers' national insurance contributions, for example, costs the third sector £78 million a year.

At the same time, however, we have a funding landscape for the third sector in Scotland that is unfair and unsustainable. Organisations are constantly having to battle the annual cycle of funding applications, which can result in redundancy notices to staff. It is not possible to recruit and retain staff because of that. Inflation-based uplifts are rare. Organisations that receive longer-term funding see real-terms cuts to their funding every year, which means that, for example, they are not able to pay the real living wage year on year, as that rises with inflation.

Timely notifications for organisations are still a huge issue. It is 23 September and I could not sit here hand on heart and say that every third sector organisation in Scotland is receiving its funding, not necessarily only from the Scottish Government—it could be from the Scottish Government or it could be from elsewhere. I certainly could not even say that it knows by now whether it is getting its funding. Organisations go months and months into a financial year without knowing whether they are going to receive funding.

We are also seeing an increase in the lack of core funding being made available to third sector organisations. If organisations cannot keep their lights on, they cannot provide the services and projects that our communities need. Our calls are more about improvements to that funding landscape, because if you can give organisations the sustainability and security to do what they are already doing, you will see that preventative spend.

At the moment, we have what our chief executive officer this time last year described as a "slow-motion apocalypse" in the third sector. Nothing has changed in the past year to deviate us from that route, and if anything, things are getting gradually worse. That will be the case until the Scottish Government implements fair funding across the board. We have a commitment to fairer funding, which at the moment stretches to a pilot of two-year funding streams and a commitment to improve those timely notifications, but we need far more than that.

We need fair funding, because it is only with fair funding that we can get a third sector that will have the security and sustainability, not to do anything magical but just to keep doing what it is doing. We said earlier that the third sector, in practically all areas, is hugely important for prevention. It is not about more funding for the third sector; it is about getting the processes right, changing the culture and making the sector more sustainable by improving the landscape that it operates in.

Alan Brown: I think that I still heard a request for more funding in there.

Jason Henderson: No, other than inflation-based uplifts.

John Dickie: I will pick up on what others have said. I hope that I have already been clear about the link between the high levels of child poverty that we have, the pressure on public finances and the damage that it does to our long-term economic sustainability of having generations of children growing up with their education and health undermined. So, it is, as others have said, about following the evidence of what works to reduce those levels of child poverty. We now have a clear evidence base that shows that investing in social security and the Scottish child payment has brought down levels of child poverty, and we need to build on that alongside other investments.

12:00

My second point, I suppose, is that we need to recognise that all this will require more funding. We are calling for more resource to be put into this now to prevent the damage being done to children and families and, indeed, to our long-term economic sustainability. More money has to go into the social security, the childcare and the housing that we know are needed if we are to eradicate child poverty.

That leads me to echo what Dave Moxham said: we need to be more ambitious and make better use of the Parliament's devolved tax powers in order to harness the wealth and resources that Scotland has. We are still a wealthy country, and we still have resources—the issue is how we make best use of the devolved tax levers to harness them. CPAG is a member of the Tax Justice Scotland coalition, and we, along with a whole range of civic society organisations, are trying to make the case for looking at replacing council tax with a more proportionate property tax not only to make the system fairer but to raise more revenue for investing in local public services. We need to maintain—and, indeed, build on—the more progressive approach that has been taken with income tax in Scotland.

We also need to be honest about this: if we as a country are serious about wanting a society without child poverty, if we want to make a transition to a net-zero future, and if we want to achieve all the things that the Parliament says that it wants to achieve, all that needs to be resourced. Therefore, do we need to look at broader-based income tax rises? We need to have a real conversation about that. We agree with the Poverty and Inequality Commission that there needs to be more of a look at the potential for further wealth taxes in Scotland, and we need to use our powers to harness some of the wealth that exists in Scotland to achieve those goals. We should also look at reforming non-domestic rates and reliefs to ensure that we are using that system of tax and reliefs to support businesses in providing the sort of family-friendly jobs that, in themselves, contribute to reducing and ending child poverty.

It is a mixture of things—there is the need for more resources, as well as the public service reform agenda and the potential for efficiencies. We also need to realise the limitations of that approach and look at the tax-raising powers that the Parliament has.

The Convener: We have about eight minutes left. I think that the group of witnesses in the corner of the room has covered most of the issues, so I will go to Liam McArthur—[*Interruption*.] I am sorry—I meant Liam Kerr. I am obviously missing Mr McArthur from the committee this morning.

I will go to Liam Kerr now. If anyone has a pertinent point to make or question to put, you can perhaps mix it into your response to what Mr Kerr asks.

Liam Kerr: I am very grateful, convener.

I want to direct two questions to Universities Scotland, but I suspect that Colleges Scotland, in particular, will want to come in on them, too. Claire McPherson, the Universities Scotland submission specifically says:

> "The 2026 Spending Review therefore needs to be judged not only on immediate affordability, but on whether it enables the institutions that support Scotland's future tax base, productivity, and public service reform to remain financially sustainable."

I am giving you the chance—judge it.

Claire McPherson: It is a big question, and it links back to my response to Mr Brown with regard to the need for investment in economic growth rather than simple spend. Quite a bit has happened since the spending review, not least our work with the Government on the future framework, but I should say that, when it comes to return on investment, the sector is very well scrutinised; a lot of activity happens to judge our output and there are measurable things that demonstrate what we are doing.

We know, for example, that we have high-quality research. We know that every pound that the Scottish Government, or any investor, spends on research in Scotland generates £11 for the economy. We also know that the quality of our teaching is exceptionally high, because it is externally validated. Therefore, we know that what we do is of high quality.

We also have the financials. The first output of the future framework demonstrated that, based on 2023-24 figures, Scottish teaching of undergraduate students is underfunded by £288 million, research is underfunded by around £580 million, there is an estates backlog of £1.1 billion and there has been a significant decline in the income source that helped smooth those gaps over, which was largely international student numbers. Those numbers created an income source that meant that we could, in essence, co-fund the teaching of Scottish students with the

Scottish Government by filling that gap and also fill the gap in research funding, which is important because the economic benefit of research is so high.

The spending review does not address any of those structural funding issues. We are very hopeful that the conclusion of the work that we are doing with the Scottish Government will provide us with a road map to think about how we might do that. It will ask big questions of all of us. The sector is already on a journey around reform, but one of the themes that we have heard this morning is that change takes time and costs money, and that it is not an annual budget cycle discussion.

We need to have a joint vision about how we will take the sector from where it is now, which is significantly structurally underfunded, to being sustainably funded. There is a significant role for the Funding Council in that, and annual reports that set out our financial sustainability will now be coming from the Funding Council to the Parliament. However, the process will also require difficult questions to be asked of the Government as to how it chooses to invest its money. We are hopeful that the evidence-based approach that we are taking will help to answer that question around the spending review towards the start of next year.

Liam Kerr: I suspect that most will be persuaded that the success of the education sector is broadly connected to the future success of the country and the projections that we have.

You mentioned the future framework for success and sustainability, and you also talked about the reporting on the first pillar of it, which happened in August, I think—

Claire McPherson: Yes.

Liam Kerr: You gave us those figures. So, we know where we are now. The third pillar of that future framework specifically requires universities to

“reform, collaborate and improve efficiency”.

The timeline for all that work is, first, the future framework; secondly, the spending review; thirdly, the pillar 1 report; fourthly, the public service reforms; and finally, the third pillar at some point in the future. How do all those plans interact at a Government level, and have the costs of those required reforms and efficiencies in your sector been sufficiently factored in and budgeted for at Government level?

Claire McPherson: The efficiencies that the sector have already undertaken are quite significant. Working with colleges, we have an approach to procurement that saves millions of pounds for the sector every year, and collaboration is increasing both in the sector and between the sector and other parts of the system, whether that is colleges, schools, local authorities or health boards. We are seeing different and innovative ways of working to deliver the outcomes that are required in places.

However, we think that we need to be enabled to reform in a multiyear way. We need a multiyear horizon for the budget, we need to be invested in to change, and we also need to have a very clear-eyed discussion with the Government about how our activity interacts with the public service reform agenda. We are not part of the public sector, nor do we deliver public services, but our partnership with the public sector and public service providers is significant. Moreover, we are creatures of place, so we are significant economic anchors in communities and regions.

There are currently a lot of moving parts. I mentioned the fact that we met the Cabinet Secretary for Public Service Reform. Our sector is part of the education portfolio, but there is no part of the Government’s mission that does not require the sector to deliver for it—whether that is environmental change or the health service—so we are looking for an integrated, systematic approach to that work. That is one of the reasons why, as part of the future framework, we are engaging so much with those partners to understand where they are coming from and where we might be able to contribute.

There is never a good time to do that work, but the fact is that we have not had an opportunity to do it in recent memory, while the world is moving around us. The theme that has come through today is that we need a more agile system that has the ability to be more responsive; the fact that our partners are also going through change exemplifies that. Therefore, a fixed model that simply says, “This is how things are going to be now for the next 15 years,” would not work. We need something that will allow us to adapt and change in light of changing circumstances, because the pace of change in the economy and society is so significant.

Liam Kerr: I understand.

Andy Witty: Looking at the pillars and the approach that is laid out in the medium-term financial strategy and the fiscal sustainability delivery plan, I think that it is about some of what Claire McPherson said about growing the tax base and the economy and spending differently. Several elements play into that. The first has to be multiyear funding, because just going from one year to the next is not the efficient way to do it.

Alongside the college sector of the future workstream, the sector is also looking at flexibilities in the current system. Notwithstanding any increase in moneys, how can colleges use the money that they have more flexibly? Colleges at the moment are constrained by the public sector finance manual, so they cannot borrow, hold reserves or carry money forward from one year to the next, yet there is an ask on them to increase their commercial income. Those things work against each other. There are things that we could do to bring more efficiency there.

The third element is that we need to break the silos in the Scottish Government as well. At the moment, some of the funding for programmes to alleviate poverty or to grow the economy, such as the offshore wind programme, has come from outwith the education budget. We need to start looking at how that cross-portfolio approach works not only for this sector but across them all. We have four clear Government priorities, including poverty and the climate emergency; the start point for each portfolio should be the consideration of how its spend contributes to meeting those priorities. We need to start looking at things in that cross-portfolio way much more.

The college sector of the future workstream looks to see what changes are needed for what Scotland needs. There are interdependencies there. A separate college infrastructure investment plan is due to be published by the Funding Council in November—the timing is not ideal, given everything else that is happening with budget preparations.

It is about looking at the funding model and at the flexibilities but also about what that looks like on the ground. On the issue of health and helping the community, there is a great example at New College Lanarkshire called the better than 52 campaign—52, shockingly, is the healthy life expectancy in that part of Lanarkshire. The college is integrated and helping to lead as it works with other agencies to increase that life expectancy, so the funding in that college is being used partly to drive better health. That is just to put some flesh on the bones of what that approach looks like in practice.

You can see immediately why I said earlier that some of those preventative spends in colleges are the purest form of preventative spend. On the economy side, you could look at Dundee and Angus College, which looks to strongly link skills and employers' needs, or South Lanarkshire College, which has a heat pump skills academy. This is what it is like practically, but the sector needs that multiyear funding, the flexibilities and that cross-portfolio approach. To do some of those things could help.

Liam Kerr: I am very grateful to you all.

The Convener: Thank you very much, Liam Kerr. I thank the witnesses for their attendance at the round table this morning, it has been very helpful.

At our next meeting, on Wednesday 30 September, the committee will conclude its evidence taking on pre-budget scrutiny, and we will hear from the Cabinet Secretary for Finance and Local Government. That concludes the public part of our meeting.

12:14

Meeting continued in private until 12:26.

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