



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Local Government and Communities Committee

**Wednesday 14 September 2016**

**Session 5**



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**LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE**  
**4<sup>th</sup> Meeting 2016, Session 5**

**CONVENER**

\*Bob Doris (Glasgow Maryhill and Springburn) (SNP)

**DEPUTY CONVENER**

\*Elaine Smith (Central Scotland) (Lab)

**COMMITTEE MEMBERS**

\*Kenneth Gibson (Cunninghame North) (SNP)

\*Ruth Maguire (Cunninghame South) (SNP)

\*Graham Simpson (Central Scotland) (Con)

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

\*Andy Wightman (Lothian) (Green)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Ronnie Hinds (Accounts Commission)

Cathy MacGregor (Audit Scotland)

Fraser McKinlay (Audit Scotland)

Douglas Sinclair (Accounts Commission)

**CLERK TO THE COMMITTEE**

Jane Williams

**LOCATION**

The James Clerk Maxwell Room (CR4)



# Scottish Parliament

## Local Government and Communities Committee

Wednesday 14 September 2016

*[The Convener opened the meeting at 10:31]*

### Local Government Overview

**The Convener (Bob Doris):** Good morning and welcome to the fourth meeting of the Local Government and Communities Committee. I remind everyone to turn off mobile phones, as they can interfere with the sound system. However, because meeting papers are provided in digital format, members might use tablets during the meeting. I am delighted to say that no apologies have been received and we have a full house this morning.

Agenda item 1 is evidence from members of the Accounts Commission for Scotland on “An overview of local government in Scotland 2016”. I welcome Douglas Sinclair, the chair of the commission; Ronnie Hinds, the deputy chair; and Fraser McKinlay, controller of audit. From Audit Scotland, we have Cathy MacGregor, the audit manager. You are all very welcome and I thank you for coming.

I understand that Douglas Sinclair is keen to give us an opening statement on the report. Following that, we will move to questions from members.

**Douglas Sinclair (Accounts Commission):** The commission welcomes the opportunity to discuss our 2016 overview report with the committee. Scotland’s councils have continued to balance their budgets each year but, with their revenue funding for the current year falling by another 5 per cent in real terms while demand for services continues to grow, they now have to think seriously about greater changes in the way that they do things. They are now working with the national health service through the new health and social care integration joint boards, and the Community Empowerment (Scotland) Act 2015 requires councils to involve local people and communities much more in local decisions, plans and services.

The scale of the challenge in 2016-17 and beyond has significantly increased. Many councils are reporting a budget shortfall—that is, a shortfall between their projected income and their expenditure in future years. Councils have already reduced their spending by making incremental savings to existing services, typically by reducing

their workforce or increasing charges. However, set against the scale of challenge that councils face, those solutions are neither sufficient nor sustainable. In making more significant changes, councils must have clear priorities for the longer term and make plans for the next four or five years, not just the next two or three. Political pressures from the upcoming elections might make that all the more difficult.

Last year, the commission said that councils had been dealing with reductions in income largely by cutting the number of employees, and that has continued. However, employee reductions must be made in the context of effective workforce planning so that councils ensure that they retain or develop the capacity, skills and knowledge that will help them to deliver services differently in the future.

Despite the reduction in spending, indicators for 2014-15 show that councils improved their performance in some areas, including educational attainment, housing quality and waste recycling, although customer satisfaction with some services—notably social care—fell. Indicators for 2015-16 have yet to be reported.

The recommendations in our report are directed at senior managers and councillors, whose role continues to be more complex and demanding. Yet again, we highlight councillors’ need for continuing training and development and good information about finance and services, including long-term financial plans.

We also underline the importance of having scrutiny and governance that reflect the changes that councils are making in how they deliver services, including health and social care integration. The public needs to have confidence that their councils’ scrutiny arrangements are transparent, independent and effective. If they are not, the public interest is not met.

We intend our overview report to be a helpful summary of evidence from the wide range of local government audit work that the commission oversees. This year marks a difference in how we report that. We will produce two complementary reports: first, later this autumn we will provide a financial overview based on annual accounts and, secondly, in the spring we will provide a wider overview drawing on all audit work. We are of course always willing to share our work with the committee to help it to fulfil its responsibilities.

My colleagues and I are happy to answer any questions.

**The Convener:** Thank you, Mr Sinclair. That was very helpful.

Before we move to questions from colleagues, I want to raise an issue. What should some of the

baseline numbers in relation to council funding look like? You rightly talked about a 5 per cent reduction in the core revenue grant to local authorities, but there is also the £250 million in relation to health and social care integration, which you mentioned. However that is spent, it will predominantly be in relation to local authority priorities through the health and social care partnerships. The Government says that taking that into account results in a 1 per cent rather than a 5 per cent fall.

I do not want to get into a debate over the numbers, as that is not for this meeting. The issue is about what moneys there are in the local authority domain, if you like—whether local authorities direct them or receive them directly—to meet the funding requirements for local authority services. Should we consider the moneys for health and social care integration and the £100 million for educational attainment? The issue is where we as a committee draw our baseline to work out the money that is in the system, irrespective of whether it comes from the core revenue grant. You made the point that, irrespective of where the money comes from, the issue is where it ends up and the scrutiny in the process to serve the public interest.

That might be a helpful starting point before we go on to look at the more specific aspects of the report.

**Douglas Sinclair:** Absolutely. The £250 million that you refer to was, as you know, allocated first to health boards. I think that we still have to do audit work to see the extent to which that has been transferred to councils. The Government commitment to allocate £100 million to headteachers is also still work in progress. Our interest is in the audit of that to ensure that, if that money goes to headteachers, we hold them to account for their spending. We are interested in the system that is put in place to ensure that the money is spent wisely and carefully. It is not for the commission to get into a debate with Government, which has a different view on the matter. I simply say that the way in which we have reported the cut in local government expenditure has been consistent year on year.

One point that is to an extent in the Government's favour, and which it might have made more of, is the fact that, even accepting our figure of a 5 per cent cut in local government expenditure—indeed, since 2010-11, it has been 11 per cent—Scottish local government has done substantially more favourably in comparison with local government in England.

**The Convener:** You are right, Mr Sinclair, and I do not wish to get into a debate on the numbers either. We are in challenging times for local authorities, irrespective of how we present the

numbers. We are seeking some support from you as we prepare for our budget scrutiny and our look at the moneys that are in the system. Are there any other moneys in the system that you want to draw to our attention? To me, the obvious ones are the health and social care integration fund and the forthcoming educational attainment fund, but are there any other moneys that, for the sake of scrutiny, the committee should look at?

**Douglas Sinclair:** I ask Fraser McKinlay to comment on that point.

**Fraser McKinlay (Audit Scotland):** I would add city deals to the mix. We are extremely interested in getting under the skin of how the money that is flowing into the city deal arrangement is working. As you know, that is an even more complex picture because some of the money is local authority money, some is Scottish Government money and some is United Kingdom money. You are absolutely right, convener, that looking at the whole system of funding for local public services is an important part of the Accounts Commission's work—and, indeed, the Auditor General's work, given her interest in the central Government side.

**The Convener:** That is helpful. The committee is conscious of the fact that, although the Education and Skills Committee may be scrutinising the Scottish attainment fund moneys, the Health and Sport Committee may be scrutinising the integration fund moneys and another committee may be looking at the city deal—which we will have an interest in as well—we need to retain a focus on the moneys that are in the system in local authority areas. That is the reason for trying to tease out some of the baselines.

A couple of members want to ask supplementary questions. Is your question on this specific issue, Mr Gibson?

**Kenneth Gibson (Cunninghame North) (SNP):** No, it is not on this issue specifically.

**The Convener:** In that case, I will bring in Graham Simpson.

**Graham Simpson (Central Scotland) (Con):** My question is on the city deal. Are you concerned about the level of scrutiny of the spending on the city deal projects?

**Douglas Sinclair:** It is fair to say that it is early days. The critical issue for councils that have come together in an area to take up city deal money is to ensure that they develop good governance arrangements so that they can be held to account for the money that they spend. They must also ensure that the collectivity of that money—if I can put it that way—adds value. As Fraser McKinlay said, Audit Scotland and the Accounts Commission will take a close interest in

ensuring that those governance arrangements are fit for purpose.

**Ronnie Hinds (Accounts Commission):** South of the border, where the scale of something broadly comparable to the city deal is greater, one of our sister organisations, the National Audit Office, has concerns about the governance arrangements for that. It is reasonably fair to say—it is public comment—that the arrangements are playing catch-up with the political reality. The funding has already been committed and there is momentum behind what the city region-type deals are trying to achieve, which is a good thing, but I think that the governance is relatively young by comparison and needs to be strengthened. The NAO has expressed that view and I endorse it.

The Accounts Commission also has some insight into the situation through the chief executive of one of the councils that was involved in the Manchester deal. He, too, was prepared to endorse that comment. The councils were obviously grateful for the money that was going in and the opportunity that it represented for the greater Manchester area, but they were a bit concerned about the fact that oversight was being delivered on the hoof. We are therefore concerned to look at the situation as it begins to develop in Scotland.

**The Convener:** Thank you, Mr Hinds. Elaine Smith has a supplementary question, but do you want to follow up your question before we move on, Mr Simpson?

**Graham Simpson:** Thank you for that answer. I share your concerns about the level of scrutiny—or lack of it—and the public accountability for these vast sums of money.

**The Convener:** The committee will be keen to return to the matter.

**Elaine Smith (Central Scotland) (Lab):** Thanks for coming to the committee and for providing your report. In your introduction to the report, Mr Sinclair, you mention that

“the scale of the challenge ... has significantly increased ... Cuts can only be part of the solution.”

You go on to state:

“What is required is a more strategic approach, longer-term planning and a greater openness to alternative forms of service delivery.”

I think that some of my colleagues will come back to that.

Please correct me if I am wrong, but the report—I have read it—does not seem to talk about raising revenue or what impact there might be if councils were to consider, for example, increases in council tax. Is there a reason for that,

or were you tasked with finding a different approach?

**Douglas Sinclair:** No. Clearly, that opportunity will be open to councils. However, irrespective of that, councils must be able to demonstrate that every pound that they spend represents best value. The danger is that, if they have a funding gap, they will simply say, “Oh well, we’ll raise the council tax to fill the gap.” Are you with me? What we are saying in the report is that councils have, to some extent, got by through what we call salami slicing—that is, cutting services a little bit by reducing employee numbers or increasing charges.

10:45

The duty of best value is to look with an open mind and say, “What’s the best way to deliver this service? Is there a need for it? How can we demonstrate to the public that the way we do it is the best and most efficient way and the one that can achieve the right combination of quality and cost?” There should not be a presumption in favour of one form of service delivery over another.

I take the point that Ronnie Hinds made. There is much more evidence of councils in England being more open to looking to alternative forms of service delivery. That might be a consequence of the much more serious financial pressures that those councils are under.

The point that we are making is that councils have an obligation to their communities to demonstrate that they are delivering best value with the services that they provide, that they are open to alternative forms of service delivery and that they can say, “We’ve looked at a number of options and we’ve decided that this is the best way to do it.” They can then be held to account by the electorate for the choices that they make.

**The Convener:** Thank you, Mr Sinclair.

**Kenneth Gibson:** I want to touch on reform and reserves. First, on reform, you state:

“councils and health boards, through health and social care partnerships, jointly have the responsibility to make a significant start in the shift from hospital care to care at home and care in the community. This is the most far-reaching public service reform since the establishment of the Scottish Parliament.”

You also state:

“councils should be evaluating options for more significant changes to delivering key services”.

What further reform do you think we should be looking at? For example, Orkney has a health board, a local authority, community planning partnerships and joint integration boards. Is there

perhaps an issue about further integration of some of those services?

**Douglas Sinclair:** Mr Gibson, you are tempting me to go into territory that is none of the commission's business.

**The Convener:** Go on. [*Laughter.*]

**Kenneth Gibson:** You mention it in the report. You look at reforms.

**Douglas Sinclair:** Yes, but these are issues for Government. It is for the Government to decide the structure of public services. The commission will work within the set of decisions that Government makes. Our job is to ensure that, whatever decisions the Government makes, there are clear systems of governance and accountability. I am not trying to duck your question, but it really is an issue for Government to decide what the shape and form of public services in Scotland should be.

**Kenneth Gibson:** Right, but you think that more reform would be helpful.

**Ronnie Hinds:** The word "reform" does not just mean restructuring. I am not sure what the intent of the question was, but if I take a broader interpretation of it, the commission has already commented in a number of areas about the speed of reform in that wider sense, some of which could relate to the integration of services.

I will give an example. Since we produced the report that we are discussing, we have reported over the summer on the state of roads maintenance in Scotland, and one of the points that we make in that report is that, frustratingly, after our commenting on this for some five years, there is very little progress in Scottish councils, and little appetite, it seems, to broaden out the delivery vehicle for roads maintenance. By and large, we still have 32 councils doing their own thing. There are one or two exceptions, but that is largely the picture. One of the things that we said five years ago was, "Why don't you join up and integrate services on a bigger scale in order to get some economies of scale and perhaps other benefits of delivery?" That has not really happened yet.

We do comment on areas such as that. I am just using that as an example. We would see that as a transformational reform. I am not underplaying the difficulties. I have been there and I know how hard it can be to do, but if we want to save money without necessarily impacting on the quality of service, that is one option that is open to us. That report points out that the service has not improved over that period while the money has perforce been reduced.

There is both an opportunity and a need to do that kind of thing. I could say the same thing for

other aspects of local government services, but we have made the case on roads.

**Kenneth Gibson:** I was thinking about both that type of reform and structural reform, but I will move on.

One of the comments that you have specifically made—

**The Convener:** Mr Gibson, I will let you back in, it is just that—

**Kenneth Gibson:** I am on the same subject. It is reform.

**The Convener:** Oh no—it was on shared services. If you want to continue with that line of questioning, we will come back to shared services with Ruth Maguire in a moment.

**Kenneth Gibson:** Sorry, have I to ask the question or not? I am not sure, convener.

**The Convener:** Ask the question but we will come back to shared services in a moment because Ruth Maguire has a supplementary on that.

**Kenneth Gibson:** In your recommendations, Mr Sinclair, you say:

"Councillors are now leading complex organisations in increasingly challenging circumstances"

and need to

"regularly review their personal training and development needs. They should work with council staff and others to create opportunities to update their knowledge and skills in increasingly important areas, such as financial planning and management, options appraisal, commissioning services, partnership working and scrutiny."

How appropriate is it to expect that level of skills from councillors who are paid £16,893 a year and how concerned are you that we will be unable to attract the people we require to run our local authorities effectively, given the demands? You will be aware that there is a disproportionate number of retired professionals and that it is difficult to attract young people of either gender, who perhaps have families, to stand for local authorities, despite the talent that exists. How important is it to look at that aspect if we are going to improve the delivery of services in Scotland?

**Douglas Sinclair:** You make a number of fair points. It is fundamental that the public have confidence in the ability of councillors to discharge their duties on their behalf. You are absolutely right to make the point that councils are generally not representative of the community. Councillors tend to be retired people, who have the time to carry out the role, and people often have to make difficult choices between their careers and participating in local government work. As you know, the Employment Rights Act 1996 provides

that councillors are entitled to reasonable time off work, a provision that is as broad as it is long.

The situation is difficult, but the point that we are trying to make is that, given the increasing complexity of local government, we have moved away from the idea of the council being an holistic organisation. It is now involved in a much wider series of partnerships. You mentioned integration joint boards. We can also consider the development of arm's-length external organisations, which did not exist when the commission was established 40 years ago. The world has become much more complex so, whether we like it or not, the demands on councillors are much greater. We have moved to a system in which coalitions are the order of the day. It is likely that, following next year's local government elections, no single party will be in control of any council. That is a world away from the local government of 50 years ago.

In that context, roles such as scrutiny become even more important. The commission's clear view is that, if councillors are going on a scrutiny or audit committee, they should have proper training to enable them to discharge that role. In a health board, nobody will get on the audit committee unless they have undergone some training to do it. It is reasonable for the public to expect that people who deal with huge amounts of money—£20 billion a year—on key committees such as scrutiny and audit committees have some training to enable them to discharge their responsibilities on the public's behalf.

I am not saying in any way that we want to reduce councillors to technocrats. For good reasons, people make choices to get involved in serving the community through their councils. However, the commission is clear that, given the increasing complexity, it is important that councillors have a reasonable degree of training in key areas such as scrutiny and audit.

In our best value audits, we have found that the take-up of the training that is available is variable. There is nothing in the code of conduct for councillors that requires them to participate in training and there is no job description for councillors—there is no job description for MSPs either. We are not suggesting that there should be; we are simply saying that, given the increasing complexity of local government, there is a reasonable public expectation that, in a number of key areas such as scrutiny and audit, councillors should have a set of skills to enable them to undertake their job of holding the executive of the council to account on the public's behalf.

**Kenneth Gibson:** Do you want me to ask about reserves now, convener?

**The Convener:** No, we will do shared services and then come back to that.

**Ruth Maguire (Cunninghame South) (SNP):** I will expand a bit on your second key message, Mr Sinclair, which is that incremental savings are no longer sustainable. I am interested to hear your opinion on what the main blockers to shared services are.

It feels sensible to say that there might be savings because of economies of scale and so on, but ultimately we could be asking the council officers to all get together and perhaps—for some of them—organise themselves out of a job. If there were five heads of roads, for example, and the services were merged, we would no longer need five heads for one service. I am interested in whether you have an opinion on a way forward and what you think about that.

**Douglas Sinclair:** You put it very well. Prior to 1995, there were nine roads authorities on the mainland; there are now 29. As to what the blockers are, there is a kind of "It's aye been" principle—that we have always done it that way and it is difficult to change. It is not easy for either the senior managers or the councillors to say, "I want to give up control because I think that this is a better way to provide a service."

As you rightly point out, there are often issues about jobs—that is the bottom line. For example, four or five councils might think about coming together and putting benefits in one council, but if that meant shifting jobs from A to B, that would be quite an issue, particularly in rural councils, where the public sector—and the council in particular—is often the major employer. However, that does not detract from the need to deliver best value.

There is also an interesting issue around how we bring about change in public services in Scotland. I will make an analogy with police reform. It is interesting that although the chief constable said that the police were absolutely committed to co-operation between the eight forces, the evidence was not there to support that. I think that the Government got frustrated about that and decided, "No, we're going to pull a lever to make this happen." There is an issue about when the Government should decide that levers need to be pulled to make those changes happen. That is not an easy decision.

The commission does not believe that shared services are a panacea but they are one of our options. If we look at these things historically, we managed before with the nine roads authorities that Ronnie Hinds referred to, so why do we need 29 now?

The objective is always to say that it does not really matter who is in control of the service. The issue is to ensure that you are providing the best-

quality services and maximising the use of that money. That should always be the driver. I appreciate that it is easier said than done, but that is what good local government is about—focusing absolutely on how we make sure that every pound represents good value for money.

**Ronnie Hinds:** If I were to offer some kind of explanation as to why there has been so little traction on shared services, despite the repeated injunctions over the years, it is probably because those options are on a spectrum and the actual sharing of services requires all the reorganisation and the aspects that Ruth Maguire drew attention to, namely that where there were several jobs, now there is only one, so who would voluntarily go that way?

We have started at the most difficult point in the spectrum. There are easier options to contemplate—just sharing information is a good start. Why does it cost a certain amount in one area but a lot less in another to deliver what is ostensibly the same quality of service? There is plenty of data around that shows that that is indeed the case for a range of services.

I am pleased to say that local government has now recognised that and has seized that particular initiative; there are active forums for sharing such information. You would hope that as a consequence of that, some of the conversations taking place at local level would be along the lines of, “Why do you continue to do better than we do, despite the fact that we are trying to learn from you? Perhaps the easy option or the right option now is for us to make common cause with you and to take a further step in the direction of shared services, so either we hand the service over to you or we come together in some fashion.”

There have been cases where that has happened, such as between Clackmannan Council and Stirling Council in relation to education and social work. Unfortunately, that did not stay the course because I think that they had not done the groundwork to begin with and it was a politically led initiative that did not survive a change of leadership or administration. Those are the hazards. However, I hope that, if we build up from the bottom, councils will recognise sooner or later—given the pressure that they are under—that they must make common cause and share services, not just information, although information by itself can lead to efficiencies and there is evidence that that is happening.

11:00

**Ruth Maguire:** One issue is definitely the tension that the political cycle brings. We are talking about big projects to bring large

organisations together and get them working together.

**Douglas Sinclair:** I will respond, but I will also bring in Ronnie Hinds, because he knows an awful lot more about the issue than I do.

Councils do not have to share services to reduce costs. A huge amount of work has been done over a number of years on the local government benchmarking framework, which enables councils to drill down into comparisons of their costs with those of similar councils. That allows one council to ask how another council can collect its council tax at a cost that it cannot achieve. If councils are willing to be open to thinking about whether they can do something better, and to say that they can do things better, opportunities will arise.

Ronnie Hinds can add to that. There is an interesting example in relation to libraries that would be worth sharing with the committee.

**Ronnie Hinds:** The report looks at absence management as one aspect of the benchmarking framework, which Douglas Sinclair referred to. We asked what the position would be if all councils performed at the level of the best or the average, and we were able to put a figure on the head count that might be gained if everybody performed at that level. That was a first venture into such an area in the overview report, and I suspect that we will follow that up in the next iteration.

Douglas Sinclair referred to a case that might be worth looking at. It is important to stress that local government is doing such work itself—that is where the information is coming from. Councils have sat down in their family groups, which comprise authorities that are broadly like each other and which have chosen to see themselves as similar—we do not compare Glasgow City Council with Angus Council, for example—and have said that if they all delivered library services in the same way as even the average council did, they could save about 10 per cent on the cost of the service. That would come on top of significant savings that have already been made in the service, so we are not starting with the low-hanging fruit.

The power of the approach is manifest when we look at such examples. The good news is that that is exactly what local government is doing for itself. Our role is to encourage, promote and report on that approach, so that we foster good practice.

**The Convener:** I think that the Clyde valley shared services review—I just double-checked its name—took place in 2010 and 2011. It involved Inverclyde Council, North Lanarkshire Council, South Lanarkshire Council, Renfrewshire Council, Glasgow City Council and East Dunbartonshire

Council. One of the review's summary reports said:

"There is a compelling business case for sharing the support services of Finance, Payroll, Revenues & Benefits, Human Resources and IT across the Clyde Valley".

Has any progress been made on that?

**Fraser McKinlay:** There has not been much progress on that. A question was asked about barriers to sharing services, and the Clyde valley experience, which came from John Arbutnott's report, is an interesting case study in why sharing services is difficult. Ronnie Hinds touched on the scale, complexity and ambition of that exercise, which involved many councils, many interests, many political positions and everything that comes with that, so the approach was always going to be a hard sell.

People have probably learned lessons from that exercise; we now see smaller-scale but still worthwhile exercises in collaboration. Recently, Highland Council, Aberdeen City Council and Aberdeenshire Council collaborated on a procurement service. I guess that we will be looking at such models for the future, rather than big-scale shared services where everything is put together in a warehouse in the middle of somewhere. Shared services have moved on a bit from what they were 10 years ago.

**The Convener:** I am focusing on the Clyde valley review because it involved a number of local authorities that were of a similar political hue, which perhaps made it easier for them to talk to each other. They were determined to drive forward shared services, but almost nothing happened. Mr Sinclair asked at what point the Government will ask why local government keeps just talking about sharing services, and decide to dictate or drive that, rather than just enable councils to do it. What barriers could the Government help to remove? Where is the cultural resistance? Could the committee explore that in relation to the local authorities in question?

**Fraser McKinlay:** Although not much was delivered as had been intended through the Clyde valley partnership, lots of smaller things have come out of that process. Instead of five or six councils doing things together, two or three councils are doing things together. They would probably argue that the discussions that took place and, to some extent, the trust that was established through that process have allowed them to do other things.

As Douglas Sinclair said earlier, it is a judgment call for Government as to when and how it pulls a lever around this stuff. My sense is that local government is recognising the need to do more partnership working. The financial pressure is clearly a driver for that, but so is the need to

deliver better services and better outcomes for communities. Across the country, particularly in health and social care, people are getting together and looking to do things differently.

**Douglas Sinclair:** More recently, there have been some straws in the wind, such as the Ayrshire roads alliance and the commitment that Inverclyde Council and East Dunbartonshire Council have made to share services. Mention has been made of city deals; as a result of city deals, there might be willingness to reconsider shared services. However, as I said earlier, shared services are one option, but not the only option, to reduce costs.

**The Convener:** It would be very helpful if Mr McKinlay or Mr Sinclair could write to us with examples of cases in which lessons have been learned from the Clyde valley review. Smaller examples of shared services have been teased out, so it would be helpful if you could write to the committee with that information.

**Douglas Sinclair:** The convener has raised an interesting point. We have had discussions about whether we should do a piece of work on why the enthusiasm for shared services has not been translated into delivery. There is an interesting audit study to be done on that.

**Elaine Smith:** You talk about problems in shared services, and in part 2 of your report, on delivering services, you mention arm's-length external organisations. Do you think that public accountability is part of the problem? If, for example, North Lanarkshire Council and South Lanarkshire Council decided to share education services—as happened in another area, where it did not work out—I might, as a resident of North Lanarkshire, be concerned about the fact that councillors in South Lanarkshire whom I had not elected were making decisions.

You have mentioned several times in your evidence the fact that roads used to be delivered by nine roads authorities. You have also talked about central direction. In the early 1990s, a political decision was taken to reorganise local government totally and to remove regions and districts. Is the argument about shared services, different methods of delivery, ALEOs and so on just an argument for a total reform of local government in order to make it more accountable to the public who elect councillors, and to make it possible for shared services to be looked at in a far more structured way through a return to districts and regions?

**Douglas Sinclair:** As I said earlier, those are really questions for Government. Whenever councils set up a shared services model, it is important that there are clear lines of accountability to local communities. Let us take

the example of the councils in Ayrshire that have come together on roads. There should be a clear line of reporting back to each council on how that service is performing in relation to its needs. What I am trying to say is that it is critical to get the design right.

I understand Elaine Smith's point. To some extent, there was an issue with the Clackmannanshire Council and Stirling Council model for education. People felt as though it was being driven by one council rather than the other. That situation does not mean that shared services are wrong in principle. However—this is the key issue—there must be clarity from the beginning on what the shared services model is set up to deliver, and on how to ensure accountability to each council and, in turn, to the local communities. It is difficult—I am not suggesting otherwise—but it can be done.

**Elaine Smith:** I mentioned ALEOs. Is there less public accountability with ALEOs?

**Douglas Sinclair:** There does not have to be less accountability. Some councils use ALEOs extensively and have very effective systems for monitoring their performance.

When a council sets up an ALEO, it needs to ensure that responsibility for the quality of the service and the money that is invested in it remains with the council, and that councillors are still accountable for that. The council's key challenges are how to monitor the ALEOs' performance and assure its communities that the ALEO is delivering on its objectives—it must ensure that the representatives that it has appointed are reporting back regularly to the council on how the ALEO is performing.

If you look across the border in England, many ALEOs have delivered quite interesting forms of service innovation. In Scotland they have, to a large extent, been set up to save money on non-domestic rates. There is still a way to go to ensure that ALEOs can, with space and time, be innovative in service delivery. However, they are but one opportunity.

As I mentioned, when the Accounts Commission was established 40 years ago, ALEOs were not part of our firmament. Now they are a big part of it; they employ a lot of people and spend a lot of money. Looking to the next iteration of best value, the commission will be looking very closely at the relationship between councils and ALEOs and ensuring that councils hold the ALEOs that they have established to account on behalf of their constituents.

**Alexander Stewart (Mid Scotland and Fife) (Con):** Thank you very much for your presentation so far. It has covered many areas, but I want to focus on one issue. Councils have extensively

balanced their budgets and have managed things as they have moved forward. The medium-term and long-term financial planning that they face under the current financial pressures make life very difficult—we understand that—but they have the added extra of council debt. That debt can have a huge implication for the financial stability and sustainability of a council. I want to tease out from you how the debt is managed. If it is not managed effectively, that could tip the balance; we know that, over the next few years, times are going to be even more demanding, there will be more pressures and debt will grow, which will add even more pressure to the whole process.

**Douglas Sinclair:** I will make the opening comment, after which I will ask Fraser McKinlay and Ronnie Hinds whether they want to add anything.

Debt is okay as long as it is affordable; that is the key issue. Let me bring in Fraser.

**Fraser McKinlay:** That is the key issue. As we mention in "An overview of local government in Scotland 2016", last year the commission reported separately on borrowing and treasury management. A key finding in that report was about ensuring that when councillors are asked to make significant decisions on borrowing, they understand the implications, because the borrowing has to be repaid. In particular, they need to understand the proportion of their revenue spend—the day-to-day spend—that is servicing the debt. That is hugely important and, as we say in the report, there are big variations across the country. It is not for the commission or Audit Scotland to come up with magic figures for what is and what is not safe. However, it is absolutely key that councillors make decisions in the context of a medium-term and long-term financial strategy that is underpinned by strong financial plans, and that councils are given the right information to help them to make those decisions with full knowledge of the implications not only for the next year, but for five, 10, 15 and, in some cases, 20 or 30 years down the line.

In a sense, the issue comes back to the conversation that Mr Gibson and Douglas Sinclair had about training for councillors who are involved in making such decisions. We are asking them to make pretty sophisticated calls on pretty sophisticated matters. New forms of innovative financing are coming in, including tax incremental financing, or TIF, and all sorts of other stuff. It seems like every week we come up with a new acronym for a new way of borrowing money. It is very complicated stuff, and our role is to keep banging on—I use that phrase because that is probably how it feels—about the importance of financial strategy and solid information.

11:15

**Douglas Sinclair:** I would have put it in a more subtle way, but never mind.

**Ronnie Hinds:** I will just fill out Douglas Sinclair's point about affordability. First, I offer the committee the assurance that the commission is on the case. You can see that in the overview report, but we also recently did a fairly detailed piece of bespoke work on council borrowing and all the complexities that go with it. Treasury management in its entirety is a complex area, so we keep a close eye on it. We are conscious of the importance of debt against a background of declining resources. By and large, the debt is fixed for the longer term, whereas the resources are declining over a shorter term, so the issue is when we will get to a pinch point with affordability. I can safely say that we do not think that local government as a whole is in that position right now, and we have not identified any individual council that is in that position, but we are keeping an eye on that.

It is worth bearing it in mind that all that debt has—one hopes—been incurred for very good reasons. One of the good reasons might be that it allows the opportunity for other aspects of expenditure to be managed downwards. For example, if councils borrow money to build new schools, one expects those new schools to be cheaper to maintain than the ones that they replace. If councils borrow to put in place new information technology, there should be productivity gains associated with that, so other aspects of their revenue costs should come down. Therefore, we cannot look at the debt in isolation. However, to return to my opening comment, we do that anyway, just to ensure that the debt is being well managed and because of its size and its importance over the long term.

**Douglas Sinclair:** I will add just one postscript to that. In our next iteration of best value audits, we will look at all 32 councils over the next five years. One of the key issues that we will look at in the audit of those councils will be financial sustainability.

**Graham Simpson:** I want to follow on from those points and some of the linked points that were made earlier. You have talked about the ability of councillors to scrutinise very complex issues. I am currently a councillor—I should have declared that at the start—and I think that that ability is lacking. You mentioned training for councillors. I wonder whether the training should be provided not by councils but by somebody else, because bringing in outsiders is probably better. I confess that councillors' eyes often glaze over when they see complex reports, particularly financial ones, so the scrutiny is not really there. Will you comment on that?

To go back to Alexander Stewart's point, your report mentions use of reserves by councils, which is becoming an issue. Are councils starting to dip into reserves and are we in danger of getting to a danger point?

**The Convener:** Thank you, Graham, that is helpful, but I have a question for you before the witnesses answer. On the first question that you asked about bringing in external people, are you making the point that senior council officials are building the capacity of councillors to scrutinise senior council officials? I seek clarity on that, because I am quite keen to hear the answer.

**Graham Simpson:** Yes. It just occurred to me as you were speaking that for someone to be trained by their council to scrutinise their council is maybe not the best way of doing it.

**The Convener:** That is helpful. Thank you.

**Douglas Sinclair:** Mr Simpson raises interesting points about training and reserves. Where to begin? Quite a lot of training is provided by the Improvement Service rather than by councils, so that is a resource that councils can access.

Generally speaking, councillors are pretty good at doing induction training. When someone starts as a councillor, they get training on what the monitoring officer does, and on what the roles of councillors and officers involve.

Where the provision falls down is in continuous professional development. In other professions such as law or accountancy, there is an obligation to take up training. Where training is not provided, things can go badly wrong. One of the most powerful examples is Rotherham Metropolitan Borough Council, in whose area there was child exploitation on a significant scale, and the failure of the scrutiny committee was palpable. One could put that down to a lack of confidence among members in feeling able to challenge officers, or to a lack of training. That underlines the importance of councillors having the confidence and skills to be able to scrutinise officers effectively.

I understand Graham Simpson's point about making reports accessible. Reports should be written in a language that is accessible to councillors—we have commented on that in a number of audit reports. It is not for officers to pull the wool over the eyes of members. The issues are complex, and officers have a duty to ensure that members understand the issues in front of them.

One big issue is the need for much greater involvement of councillors in the design of training. There is an assumption that councillors do not know anything when they join a council, but they know a lot about some things. The training must

be designed to a much greater extent to fill the gaps in what councillors need to know about.

There is an outstanding issue—which I mentioned earlier—regarding how we ensure better take-up of training. We have a report coming out quite soon on roles and relationships, and we suggest, as I said earlier, that, in some critical areas such as scrutiny and audit, training should be mandatory in the same way as it would be for someone who sits on a planning committee or a licensing board. A councillor would not get on such a committee unless they had undergone some training.

On the point that Graham Simpson makes about reserves, which I will ask Fraser McKinlay and Ronnie Hinds to come in on if they want, the commission's golden rule is that reserves can be used only once. There is evidence of a number of councils that have filled the funding gap by saying, "Oh well, we'll use the reserves." That is not a sustainable long-term solution, as they are ducking the questions. It is a bit like saying, "If we have a funding gap, we'll simply raise the council tax." That brings us back to the point about ensuring that, instead of cutting services, we cut costs first of all.

**Fraser McKinlay:** Briefly, on the point about training, I will make a plug for external auditors in that context, particularly when it comes to audit committees and financial sustainability. The commission appoints independent auditors for all 32 councils, and those auditors are always very happy to run independent training for audit committee members—we are delighted to do that when we can.

On the use of reserves, exhibit 7 on page 18 of the report highlights the bit in which we are always most interested. Using reserves is legitimate, and councils would argue that they have been building up reserves for a rainy day and that it is now raining, which is why they are doing it.

Our problem with that, looking at the numbers that we have tried to capture in exhibit 7, is that it is clear that half of the councils did not plan to do what they ended up doing. It is absolutely legitimate to use reserves as part of a planned financial strategy going ahead but, as one can see, looking both up and down, it is clear that a good number of councils did not use reserves in the way that they had planned at the start of the year. That is our concern about the use of reserves, which goes along with the concern that Douglas Sinclair mentioned about the existence of any sense that councils are relying year on year on reserves to plug a gap, because that is not sustainable.

**Ronnie Hinds:** On the specific question of who trains the councillors on things such as treasury

management—which the report touched on—I point out that there is a distinction between the elements of training. On the one hand, training is intended to give an understanding of the subject matter. It is a very technical area and, frankly, local government directors of finance are the experts on that. On the other hand, there is training on how to hold people to account, whether in that area or on something else.

Having made that distinction, I can see the point about having someone other than a council officer helping to impart the skills on how to ask the right questions, how to be dissatisfied with getting not quite the right answer and how to follow that through, as opposed to understanding the technicalities of short-term and long-term borrowing. There is something to think about in that regard.

On the question of reserves, in addition to what Douglas Sinclair and Fraser McKinlay said, I note that, in point of fact, the level of reserves has been increasing over the past few years. We are interested in the deployment of reserves. Douglas Sinclair's point is the fundamental one—they can be used only once—but we need to ask how effectively they are being used.

We see plenty of examples in which money is set aside in order to fund some innovation so that there is a long-term benefit, but what we are really interested in is the meat on the bones. What actually happened? Was that money really used for that purpose? Where is the evidence that it had the desired result as opposed to being used as a temporary way to fill the gap between a budget one year and a budget the next year, which is always a temptation when you put additional money in someone's hands? We want councils to provide evidence that the reserves have been used for a purpose such as funding innovation and to be able to show that that is exactly what happened.

**Graham Simpson:** We have touched on some interesting issues. Douglas Sinclair was absolutely right in saying that if someone sits on a licensing board, as I do, they have to pass an exam to sit on it. Incredibly, I passed the exam.

**Kenneth Gibson:** How did that happen?

**Ruth Maguire:** I am smiling, because is it not multiple choice? *[Laughter.]*

**Graham Simpson:** If you have to pass an exam to sit on a licensing board, why should that not be the case in other areas?

**The Convener:** If you could give all the councillors on the committee today marks out of 10 for their level of scrutiny, that would be helpful as well.

**Graham Simpson:** Maybe not.

**The Convener:** Does anyone want to reply to Graham Simpson? There are no takers—we will leave that hanging.

**Kenneth Gibson:** Exhibit 6 in the report is quite interesting because it outlines the variation between 30 councils in the level of reserves that are held as a percentage of service costs, which is between 3 per cent and 23 per cent. Of course, you have added a caveat about excluding Orkney and Shetland councils because of their vast reserves.

You state that reserves should not really support day-to-day spending because that is unsustainable. However, you go on, in paragraph 20, to say:

“The level of reserves that a council holds is a local decision, but should be clearly informed by an annually reviewed reserves policy.”

Surely the Accounts Commission must have some view on what the average level of reserves should be, particularly given that local authorities, as Mr McKinlay has pointed out, do not even seem to follow their own policies on reserves in 50 per cent of cases on an annualised basis.

**Fraser McKinlay:** We have always resisted the temptation to quote a number, Mr Gibson, because as soon as the commission does that, people will begin to construe that as a target and we would end up getting into discussions about whether a council was above it or below it and whether that was a good thing or a bad thing.

Clearly, if a council is operating with close to no reserves at all, our auditors would absolutely raise a concern about financial sustainability because, if something unexpected were to happen, the council would not have the funds to deal with it. Beyond that kind of principle, we have not quoted a number, because we are more interested in the qualitative nature of the plans that underpin those reserves and, as Ronnie Hinds said, what the councils actually plan to do with the reserves.

The commission has done this work over a number of years now, which is a good thing, as we now have much more transparency on what reserves look like in councils; 10 years ago, we could not have produced exhibit 6. We have that information now and that is partly because the commission has been encouraging councils to be more transparent about not just the totality of the reserves but what they are actually planning to do with them.

Related to exhibit 6, which is on the variation of reserves, we have exhibit 7, which looks at the extent to which the use of reserves is as planned, which is what we are really interested in.

**Kenneth Gibson:** Okay, but surely that is a bit of a cop-out. There has to be some guidance. If

Glasgow is at 3 per cent, for example, is that slightly more than you think should be the minimum or slightly less? Surely there has to be some kind of benchmark. Are people in Inverclyde, for example, perhaps not getting the services that they should because the level is at 23 per cent?

You also mention in paragraph 18 of the report the fact that, despite all the reductions in local government expenditure, the reserves

“are now 39 per cent higher than they were in 2010/11.”

You spoke about saving for a rainy day, which has now arrived, but for some councils it seems that the rainy day is always next year or the year after. It seems contradictory that reserves are going up while budgets are going down. There is a huge disparity. Perhaps you can also advise us on what the Shetland Islands Council’s oil-based reserve is relative to its annual expenditure.

**Fraser McKinlay:** On the second point, I do not have the up-to-date number in front of me, but we can certainly write to the committee with that.

On the other point, without doing the work across the 32 councils to look at the nature of all the plans that underpin those levels of reserves, I am not in a position to sit here today and say that the Glasgow number is good, bad or indifferent or, equally, that the Inverclyde one is good, bad or indifferent.

I absolutely agree with your point that it feels counterintuitive that reserves are going up while budgets are going down. It is a challenge that we have laid at the doors of councils a number of times, not least in this report. On the one hand, financial pressures are mounting, with services being cut, while, on the other, reserves are being replenished.

If that is part of a planned approach, particularly—to take Ronnie Hinds’s point—if the plan is to invest for innovation or to invest to save, that is absolutely fine. I mentioned exhibit 7, which shows that eight councils did not plan to increase their reserves but did. That is as concerning for us as the councils where it happened the other way round. Just because those eight councils ended up on the right side of the line does not mean that it is all right. From that point of view, I absolutely agree with you. However, that situation says more about councils’ financial planning and financial management than it does about the absolute level of reserves and whether or not they are at the right level.

11:30

**Kenneth Gibson:** Surely that is a real issue. If half the councils do not even follow their own plans, how can you have any faith that their proposals for the reserves are appropriate in any

way at all? For example, one could even perhaps suggest that Inverclyde's level is lower than it should be, because if plans are not being followed, it almost seems to be a meaningless exercise.

This is a year-to-year thing that local authorities are doing, with a lack of forward planning. Surely you need to give serious consideration to that and it must make you want to drill much further down into the whole issue of reserves, planning for reserves and how the reserves are ultimately drawn down by local authorities.

**The Convener:** I see that Mr Hinds is volunteering to comment on that.

**Ronnie Hinds:** Yes, just to give Fraser McKinlay some relief. For me, the key thing is that the reserves are just one aspect—albeit an important one—of the point that Mr Gibson is really making, which is about overall financial planning. Part of what a good council does is to plan for a given outcome for the financial year. An aspect of that will be what it expects the reserves to be at the end of the year compared with what they were at the beginning, but the key point is that the reserves need to be looked at in that wider context of financial planning. It is that area that we try to get more clarity on through this report and a lot of the work that we do.

In the report, we say that we see quite significant variation in practice between the 32 councils. Some work on a shorter-term basis, some work on a longer-term basis, and some cope better with the uncertainties and the slings and arrows out there. In the current year, everybody was confined to a one-year horizon as far as Scottish Government funding was concerned. Nevertheless, some councils were able to look beyond that and say, "We have a longer-term strategy, so we'll do some scenario planning and we'll work our way through that uncertainty until things change."

For me, financial planning is the right context for this work. The reserves are almost a consequence of that, and to home in on them would probably get us into relatively unproductive territory, which is why Fraser McKinlay said that we have always had a self-denying ordinance on that.

I want members to rest assured that when the auditors do their work annually, one of the things that they look at is financial planning, with one of the consequences being the level of reserves, which will attract comment if we think that it has moved significantly one way or the other.

The local audit work that is done on the ground, which supports everything that you see reported here, is an important part of how councils are held to account. We would expect councillors to be asking the kind of questions that you are asking now, such as, "I thought we were going to see a

reduction in reserves this year, director of finance, but they went up—why is that?", and that seems to me to be the right area in which to follow that through.

**The Convener:** Is how reserves are presented across all local authorities in accounting terms and how they are audited the same across all 32 local authorities? Are local authorities bound to give projections in the same way on what their reserves will look like from one year to the next? Is there a set procedure in audit or accounting terms on how they have to explain their rationale for fluctuations in reserves? Are we comparing apples with apples so that councils can effectively scrutinise their officials?

**Fraser McKinlay:** Yes and no is the answer to that question, convener. It is yes in that, when we do the audit of the financial statements, it is done in the same way 32 times over and councils have to present their financial information in the same way in terms of the totality of the general fund reserves and other reserves.

Where there is more local flexibility, if you want to call it that, is on definitions of allocated and unallocated reserves, for example, which we talk about in exhibit 6. Those definitions will inevitably vary from council to council. That is why, as well as the really important but narrow audit of the financial statements to give a true and fair opinion, which our guys do, there is what we refer to in public audit terms as the wider scope. We look at how that is governed and what the financial management and financial sustainability are like. That is where we get into the more qualitative assessment of the nature of the plans that underpin those things.

Douglas Sinclair mentioned our refreshed best value audits, and an important part of that story is the extent to which councils are delivering as planned year on year. If there is a council that is continually, and serially, underspending its budget without meaning to, that would raise as big a flag for us as a council that overspends. As Mr Gibson suggested, presumably that money was due to be spent on something, but it has not been spent. That is how we go about that process, which we do with all 32 councils.

**Douglas Sinclair:** As a postscript, I think that we have given a reasonable explanation of the commission's position on why we do not have a target or a benchmark. There might be mileage in the point about us being clearer about allocated and unallocated reserves so that there is more consistency across the councils. We will take that point away and think about it.

On public transparency and accountability, it is important that councils adopt a similar definition.

**Andy Wightman (Lothian) (Green):** In message 5 of part 1 of your report, you talk about the “challenging financial environment” and say that

“effective medium-term ... and longer-term ... financial planning is critical for councils. This is more challenging for councils when they do not know what their future funding and income will be”.

What role might greater fiscal autonomy play in enabling councils to achieve that better ability to long-term plan? Is there any merit in exploring a fiscal framework between the Scottish Government and local authorities like the framework that the UK Government and the Scottish Government have arrived at? A good example might be what has happened with council tax. The council tax freeze will be lifted, but the overall compensation that has been provided to councils has built up accumulatively and will not be replaced. It is kind of a one-off reduction to the floor of council tax receipts, which was never part of any agreement.

**The Convener:** Who would like to answer that?

**Douglas Sinclair:** It is a difficult question so I will get Fraser to answer it.

**Fraser McKinlay:** I will do my best. It is a fascinating question and, now that councils have the ability to vary council tax, it will be very interesting to see the extent to which they choose to do that. As you know, council tax makes up a relatively small proportion of their overall funding, so council tax increases will need to be fairly substantial to make a meaningful difference to the overall pot. We can certainly see from their medium to long-term financial planning that some councils are beginning to factor that into their thinking. No decisions have been made, as they will be for the budget round that is coming up, but people are saying that increasing council tax by 2 per cent would provide £X million.

We recognise and accept that the fiscal framework and, more immediately, the budget cycle make it difficult for councils. In an ideal world, they would know how much money they would have for the next five years but, to be fair, the Scottish Government does not know that either. We live in a world in which they have to figure that out. The commission has been very clear in our contention that in those circumstances, medium to long-term financial planning is even more important. You need to have scenarios and to think about the best and worst case options and what they might mean; otherwise, you are going from one year to the next and trying to figure it out as you go.

I am sure that you are aware that a review is underway of the budget process, involving the Parliament, the Auditor General for Scotland and

others. It will be interesting to see what that brings for the budget cycle next year. My sense is that, for this year in particular, we will be in a similar place. That is why we will continue to encourage councils to do better scenario planning and to think more long term, even though they do not know for sure how much money they will get.

**The Convener:** Does anyone want to add to that?

**Ronnie Hinds:** I will make two specific comments on the council tax freeze. When council tax unfreezes after nearly 10 years, it will be interesting to see how it is handled in local government. We will keep a watching brief on that, because the majority of directors of finance will never have experienced the setting of a council budget in which a variation in the level of council tax was a genuine option. The freeze has been a given—it has been, in effect, a part of the Scottish Government’s funding arrangement—whereas the calibration that accompanied the status quo before the freeze was always an important part of the local democratic process. Directors of finance had to advise councillors on the option of raising council tax by a given amount or reducing expenditure by a given amount, but that trade-off has not happened meaningfully for about a decade. Therefore, we will look carefully at how budget setting is handled and, retrospectively, at the accounts.

I offer an associated point. Exhibit 2 in the report shows that the council tax at the time of the report was 11 per cent or so of the total income that councils were spending. The report also says that roughly £0.5 billion is now in the Scottish Government funding for local government to compensate for the council tax freeze. Adding that roughly £0.5 billion to the £2 billion that is mentioned in the report will increase the proportion of councils’ overall council tax income from 11 per cent to something like 14 per cent. That does not mean that councils will have full fiscal autonomy, but it is a small step in that direction. That is what is going to happen after the council tax unfreezes.

I do not want to repeat my first point, but I think that, as councils get on that path again, we will have to look carefully at what that means for the level of local taxation. You may remember that, last year, because of the funding settlement that the Scottish Government proposed, one council intended to ask its local population how they would feel about a council tax increase of around 20 per cent—the figure was quite high. That did not happen, but we must recognise that, when the freeze unfreezes, such options will become viable, although whether they will be palatable at a local level is another issue. All the stasis that there has been over 10 years means that, when it starts to unpackage, that is not necessarily going to be a slow,

gradual process everywhere—the temptation to do something else will be real and valid.

**Andy Wightman:** Fraser McKinlay says that, when the council tax freeze ends, councils will be able to set the rate of council tax. However, they have always had that ability; there has just been political pressure, which will continue in the future.

In Edinburgh, there has been discussion of a tourism tax to deal with the additional costs that the city faces during the summer months and the festival, but the Parliament has resisted that. There is an argument for councils having more autonomy, with the decision whether to apply such a tax being a political decision for the council itself in consultation with the chamber of commerce, the tourism industry, hotels and the citizens.

I raised the question of the fiscal framework and greater autonomy because I wonder whether changing the extent to which councils have flexibility and autonomy over what tax base they have, how it is designed and how it might apply—one council might want to increase council tax on holiday homes while another might want to reduce it—would give greater flexibility and help medium and long-term planning. I do not expect a definitive answer on that, but I would like an indication.

In your audit, you raise some serious concerns about the future. You do not restrict yourself to strict audit on an annual basis; very helpfully, you provide us with pointers of the challenges. The job of the committee and Parliament is to grapple with those questions and see how we can help councils to undertake medium and long-term planning.

**The Convener:** Given that we have about 10 minutes left in this evidence session, you will be pleased to hear that we are not looking for a definitive answer. It might be worth viewing the matter in the context of the Scottish Government's aspiration to assign income tax revenues from local areas to local government funds. We are no more clear about how that is going to operate, but I suspect that it will sit within any new fiscal or financial framework.

**Douglas Sinclair:** I will kick off on that one. Mr Wightman raises some interesting issues that are, in a sense, beyond the commission's remit. There is a long-standing debate about whether, if we want local government to be truly accountable to communities, it should raise at least 50 per cent of its income. That is the position that the Convention of Scottish Local Authorities and local government has always taken.

11:45

Part of that debate goes beyond council tax to look at a variety of taxes and how we ensure that we make that happen. It is a perennial debate—it

goes back over years. A number of royal commissions have looked at the issue and made the point that, if we want local government to be truly accountable, we need to change the balance of control between central and local government.

Having said that, as central Government is always one of the key funders of local government, it is natural that it will want to have a degree of input. There is always a balance between local discretion over services that are provided and the desire of the Government—whatever its political colour—for some degree of uniformity in standards. It is a continuing debate that is far from being resolved.

The debate in Edinburgh is interesting in terms of looking at how we widen the tax base. All these things have consequences. I am sure that the debate will continue, and the commission will watch it with interest.

**Ronnie Hinds:** Once we leave here, the three of us are going to ponder our strategy for the Accounts Commission over the next few years, so I will take that helpful point on board.

I can see opportunities for some useful joint consideration between the Auditor General for Scotland and the Accounts Commission in the wider context to which I think Mr Wightman is drawing our attention. We are looking at not just local government funding and taxation, but the bigger background of what is happening with the Scottish Government's funding and with taxation. Perhaps a piece of work could look at that in the round over the next few years, as the situation evolves.

**The Convener:** Are there any further bids for questions from committee members?

**Kenneth Gibson:** I have a question.

**The Convener:** Graham Simpson put his hand up before you, Mr Gibson. I will bring you in later, as we have time.

**Graham Simpson:** I must have been quick, convener.

I want to ask about pension deficits, to which the commission's report refers. You say that they are not a concern, but they are growing. At the time that you looked at them, they were at the level of £10 billion, which strikes me as rather a lot of money.

If those deficits are increasing, at what point do we get to the stage at which they are a concern? Would you be prepared to say what limit there should be and how far we should go before we say that enough is enough?

**Douglas Sinclair:** We say in the report that there is a gap, but the people in control of the

pension funds believe that they are manageable. We keep a close eye on that situation.

As a slight diversion, COSLA commissioned a piece of work a few years ago on shared services that asked whether we need eight pension funds—

**Fraser McKinlay:** There are more than that.

**Douglas Sinclair:** Yes—there are 11 pension funds in Scotland. We asked whether we could drive efficiencies by reducing the number of pension funds, as has happened in England. That work did not proceed. I do not know whether Fraser McKinlay or Cathy MacGregor have anything to add to that, but we will keep a watching eye on the situation.

**Cathy MacGregor (Audit Scotland):** I think that we said in the report that there are plans to reduce the deficit. The reason for not being immediately concerned is that there are 20 years in which to do that, but obviously, as auditors, we will be keeping an eye on the issue.

**Graham Simpson:** What you do not say is what those plans are.

**Cathy MacGregor:** I do not have the detail of all the plans at the moment.

**Douglas Sinclair:** If it would be helpful, we could drop a note to the committee on that one.

**Fraser McKinlay:** As Douglas Sinclair mentioned, we are producing a separate and specific report this year, in November, on the plan for local government finances. The report usually combines finance and performance, but we are separating out those two elements this year. Pensions will get a good dose of coverage in that report, and we will be happy to come back and talk to the committee at that point.

**Ronnie Hinds:** In the spirit of providing quick reassurance, the issue is complex but one factor that is relevant here is that there is now a ceiling on the employer's contributions to the pension fund scheme, so it is not a runaway truck. That partly reflects the trend over a number of years, on which our report picks up. There are cost control mechanisms in place, and that is part of what we will be keeping an eye on.

**Kenneth Gibson:** My question is about the local government benchmarking framework. I was fascinated by the figures. I noticed, for example, that despite the reductions in local government funding the percentage of dwellings that meet the Scottish housing quality standard has increased from 53.6 to 90.4 per cent, which is a phenomenal improvement in only four years, and the percentage of council dwellings that are energy efficient has gone up from 74.9 to 96.5 per cent. Again, that is first class.

Is there consistency across all 32 local authorities, or are there local authorities that significantly digress from the significant progress that is being made? Earlier, we talked about—Mr Hinds touched on this—considering best practice, how local authorities can share that to reduce costs and the ability to deliver continuously improved services. Is the Accounts Commission looking at that and speaking to particular local authorities that are perhaps not improving as rapidly as others?

**Douglas Sinclair:** I will make two points and then ask Ronnie Hinds to come in.

First, on the next generation of best value, we will highlight much more consideration of a council's performance compared with its family of councils. Secondly, you are absolutely right to mention the issue of consistency. I remember from my time in local government the issue of the payment of invoices within 30 days. Some councils used to play games at that, as they used to exclude the education invoices that came in the school holidays. The more important thing for me is not whether the invoices are paid within 30 days; the cost of paying that invoice between a council and a comparable council is much more relevant.

I know that directors of finance have been doing a huge amount of work trying to get greater consistency.

**Ronnie Hinds:** The benchmarking framework, which Kenneth Gibson is drawing our attention to, should be more about improvement than consistency. If everybody was consistently bad, there would be small comfort in that. The framework is designed to accelerate the rate of improvement, which partly involves looking across the border and learning what is going on around us. There will be some consistency, because there will be levelling up, I hope, as a consequence.

**Kenneth Gibson:** I am sorry, but it was obviously improvement that I was talking about.

**Ronnie Hinds:** I wanted to use that as a prelude to make a point in favour of local government. It is to local government's credit that it has the framework going. It is local government's initiative, and it is running with it. We are keeping a watching eye on it, but it is its baby, and it is beginning to demonstrate that it is leading to some improvement.

Kenneth Gibson has given examples from the report. There is real variety in there. He drew attention to the Scottish housing quality standard. One reason why there is improvement is the fact that there is a Scottish housing quality standard, so everybody is working to the same script. There is also funding for it, so there are resources for it.

That gets the stellar improvement that members see.

That is not the case in every instance, and I am not saying that it should be. I take comfort from the fact that others who do not have that kind of fillip are nevertheless demonstrating improvement, even though they have had to reduce the amount of money that goes into some services.

The key thing for the commission is to look at that, provide whatever assurance we can on it, and encourage councils to drill right into what leads to those variations in spend, practice and performance. Some of that is difficult because councils wash their not-so-clean linen in public when they do that. Therefore, let us be careful about that and not invite people just to go into a shell. However, the fact that that information is in the public domain and we are prepared to put it into such a report is a good thing.

On where we want to go next—we have said this in local government—as councils begin to analyse what lies behind the figures, they can say things. I will use the different example of educational attainment, as it is current. Councils can say that some of the improvement in educational attainment that they can show over the past five years across all 32 councils can be explained by the socioeconomic circumstances that obtained in them. Again, they vary. Levels of deprivation are a key factor in play if we are trying to improve educational attainment. However, councils can now analyse that data, strip that out, and say that it accounts for less than half of the variation between the 32 councils.

Once we take things such as deprivation out of the mix, we are left with a real question: why is there still a significant variation of more than 50 per cent between the best-performing council and the worst-performing council? That is where things need to go now.

We want to put our shoulder to the wheel. It would be fine if we did the work, but it would be better if councils did it. They have ownership, drive and the means of control. Our role is to encourage and support them and, where necessary, hold them to account for not doing things quickly enough.

**Kenneth Gibson:** It would be interesting to see these figures on a local authority by local authority basis. I know that you have put in a caveat, but it would be good to see the huge improvements that have been made in some local authorities and then look at why others are perhaps not doing so well. That should also be seen against their underlying cost base, because I am sure that some of the ones that are performing best are not necessarily those that are the most expensive in delivering that service.

**Ronnie Hinds:** That is definitely true.

**The Convener:** I think that that could also happen in our budget scrutiny when we drill down into local authority spend.

**Elaine Smith:** I am conscious of the time, so if you do not mind, I will ask my two questions together. First, can you comment on councils' readiness in implementing the Community Empowerment (Scotland) Act 2015? Secondly, what is your opinion on the effectiveness of community planning partnerships?

**Douglas Sinclair:** With regard to the 2015 act, guidance is coming out, and I think that we will be doing a piece of work on how well local authorities are prepared and on their commitment to ensuring that they engage effectively with communities. The report contains a whole bit on the much greater involvement and participation of communities in relation to budgets, but the issue is also on our to-do list. As you know, the commission and the Auditor General have jointly done a series of reports on community planning and although we have no intention of doing further work on that, we will keep the subject under review.

I will be quick about this, but I think that it would be interesting to compare, if you like, the effectiveness of community planning through voluntary partnerships and the expectation surrounding integration joint boards, which are statutory partnerships and therefore have a clear accountability to ministers if things do not work effectively. That said, key to the effectiveness of IJBs will be building a culture of trust between the council and the partners around the table, which is something that we highlighted more than once with regard to community planning. It is a particular issue in relation to health and local government, which have very different cultures. A councillor's background is very different from that of a non-executive member of a health board, and it is really important that the IJBs spend time and effort on building a culture of trust and ensuring that there is a common understanding round the table that they are there not for the council or for the health board but for what is in the best interests of the integration joint boards and to meet the challenge of getting people out of acute hospital beds into care in the community or care at home. There are lessons for IJBs to learn and draw upon from studying the experience of community planning.

**Elaine Smith:** Thank you. We look forward to seeing your report in due course.

**The Convener:** The committee wanted to ensure that it covered as much of the content and range of the report as possible, and I hope that you feel that we have done much of that work in what has been a long evidence session. We are

very grateful for the time and effort that you have put in this morning.

We are overrunning, but before I close this evidence-taking session, I give Mr Sinclair or perhaps one of his team a brief opportunity to put on record any other comments that they might have.

**Douglas Sinclair:** All I would want to say is that we have enjoyed the opportunity to discuss our overview report with you. There might well be other opportunities; indeed, we would certainly welcome the opportunity to discuss with you the development of the next iteration of best value and the fact that it will apply to all 32 councils, not simply to councils that are not performing well. I am sure that being able to assure the public of the performance of every council in Scotland will be an issue of considerable interest to the committee.

**The Convener:** With that, I thank Mr Sinclair and his entire team for their time this morning. That completes agenda item 1, and I will give the witnesses a chance to leave the room before I move on to agenda item 2.

11:59

*Meeting suspended.*

12:02

*On resuming—*

## Petition

### Planning (Rights of Appeal) (PE1534)

**The Convener:** Agenda item 2 is consideration of petition PE1534, by Clare Symonds, on behalf of Planning Democracy, on equal rights of appeal in the planning system. At last week's meeting, we discussed this petition when we heard from the independent review panel and the Minister for Local Government and Housing about the review of the planning system. In considering what we do with it, the committee should note that the independent review of the planning system and the Scottish Government do not support equal rights of appeal.

That said, the Scottish Government has announced that a planning bill will be brought forward in autumn next year, and that will provide members not just on this committee but across the Parliament with an opportunity to seek to amend that legislation to include an equal right of appeal. The petitioner has also confirmed that they will sit on the working groups that will be looking into recommendations of the recent review of the planning system that was established by the Scottish Government.

Given all that activity, I am minded to close the petition, but I am, of course, keen to hear members' views.

**Elaine Smith:** The issues certainly remain pertinent. As you mentioned, convener, we took evidence on them last week, so it is not as if they are going away. I also think that there are other ways of taking them forward.

That said, I think that the terms of the petition are quite clear: it urges the Scottish Government to review the current rights of appeal. Clearly, that is not going to happen—or, at least, not in the way that the petitioners have urged it to happen in the petition, which goes back to 2014. Given that, whether members have sympathy with the petition or whether they are keen to pursue the issue, I think that, as far as the petition is concerned, there have to be other ways of pursuing the matter and I would therefore not go against the proposal to close the petition.

**The Convener:** Thank you, Elaine. That was helpful.

**Andy Wightman:** I have a lot of sympathy with the petitioner. One of the bits of evidence that was submitted on the petition related to a case in my constituency, in which the ombudsman had made it quite plain that the council had not taken into

account—in fact, had not sought—a transport impact assessment for development, and there was no way for the community to appeal the decision or whatever.

The arguments and demand for this measure partly come out of a frustration with regard to the ability of communities and others to properly hold what they consider defective decisions or whatever to account in the same way that an applicant can. I agree with Elaine Smith that the petition is asking the Parliament to urge the Government to review the current rights of appeal, and I know that the Government has clearly indicated that it is not minded to do so. However, I go back to the evidence that we heard last week on equalising the rights of appeal and the idea that the arguments for there not being a third-party right of appeal might well apply to the existing rights of appeal that the applicant has.

In that context, I am happy to close the petition, given that the debate will continue for some time and that the petitioner's substantive point will not go away. I am also mindful of the fact that the Scottish Government has made it absolutely clear what its answer to us would be if we were to urge it to review the rights of appeal.

**Alexander Stewart:** I agree with both Elaine Smith and Andy Wightman. I realise that there is no opportunity to take the petition any further, but what opportunity would we have to continue to investigate something of this nature? After all, the issue is still very pertinent, and we might well have an opportunity to examine it again in some way, although not necessarily as a result of this petition.

**The Convener:** I will come back to some thoughts that I have on that matter at the end of the discussion.

**Kenneth Gibson:** We should remind ourselves what the independent review of the Scottish planning system said. Paragraph 46 of its report says:

“The evidence shows that a third party right of appeal would add time, complexity and conflict to the process, and have the unintended consequence of centralising decisions, undermining confidence and deterring investment. We believe that using time and resources to focus on improved early engagement would provide much greater benefits.”

I think that, given the views of the Scottish Government and indeed the independent review itself, that is how we should move forward when the legislation comes to us next year.

**The Convener:** If there are no more comments from members, I want to reflect very briefly on what has been said while, first of all, making the obvious point that this matter got a significant airing by the committee at last week's evidence session, and I have no doubt that it will get

another significant airing when the Scottish Government's planning bill goes through that wider legislative process. The fact that four members of the committee have just given fairly specific comments should, I hope, reassure Planning Democracy and Clare Symonds that that is the case.

Of course, we are deciding not whether we are sympathetic towards the issue of equal rights of appeal but whether we should close the petition. Given that members who have intimated their sympathy for equal rights of appeal are still content, with the caveats that I gave at the outset, for the petition to be closed, I seek the committee's agreement to close it. Are we agreed?

**Members** *indicated agreement.*

**The Convener:** Thank you very much.

## European Union Reporter

12:08

**The Convener:** Agenda item 3 is the appointment of a European Union reporter. I invite volunteers or nominations for the role.

**Elaine Smith:** I nominate Andy Wightman.

**Kenneth Gibson:** I second that nomination.

**The Convener:** You indicated interest in the role before the meeting, Mr Wightman, but for the sake of clarity, I should ask whether there are any other nominations.

As there are no other nominations, Mr Wightman, are you content to take on the role?

**Andy Wightman:** Yes, convener.

**The Convener:** In that case, I congratulate you on assuming the role of the committee's European Union reporter.

That ends agenda item 3. As we had previously agreed to take in private agenda item 4, which is consideration of the evidence that we have taken this morning, I now move the meeting into private session.

12:09

*Meeting continued in private until 12:31.*



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