OFFICIAL REPORT
AITHISG OIFIGEIL

Local Government, Housing and Planning Committee

Tuesday 31 January 2023

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 31 January 2023

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LOCAL GOVERNMENT, HOUSING AND PLANNING COMMITTEE
3rd Meeting 2023, Session 6

CONVENER

*Ariane Burgess (Highlands and Islands) (Green)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*Miles Briggs (Lothian) (Con)
*Mark Griffin (Central Scotland) (Lab)
*Paul McLennan (East Lothian) (SNP)
Marie McNair (Clydebank and Milngavie) (SNP)
*Annie Wells (Glasgow) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Martin Booth (Chartered Institute of Public Finance and Accountancy)
Andrew Burns (Accounts Commission)
Carol Calder (Audit Scotland)
Blyth Deans (Audit Scotland)
Robert Emmott (Dundee City Council)
Kirsty Flanagan (Chartered Institute of Public Finance and Accountancy)
Bill Moyes (Accounts Commission)

CLERK TO THE COMMITTEE

Euan Donald

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Local Government, Housing and Planning Committee

Tuesday 31 January 2023

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Ariane Burgess): Good morning, and welcome to the third meeting in 2023 of the Local Government, Housing and Planning Committee. We have received apologies from Marie McNair, who is a member of the committee. I remind all members and witnesses to ensure that their devices are on silent and that all other notifications are turned off during the meeting.

The first item on our agenda is to decide whether to take items 4, 5 and 6 in private. Do members agree to do so?

Members *indicated agreement.*

Local Government Fiscal Arrangements

09:30

The Convener: Under item 2, the committee will take evidence from two panels of witnesses on local government fiscal arrangements. In the first session, we will focus on “Local government in Scotland: Financial bulletin 2021/22”, which the Accounts Commission published recently. For our first panel, we are joined by Bill Moyes, who is chair of the Accounts Commission, and Andrew Burns, who is a member of the Accounts Commission. They are accompanied by Carol Calder, who is audit director at Audit Scotland, and Blyth Deans, who is senior manager at Audit Scotland. I welcome our witnesses to the meeting.

Before we open up the session to questions from members, I invite Bill Moyes to make a short opening statement.

Bill Moyes (Accounts Commission): Thank you very much. On behalf of my colleagues on the Accounts Commission, I welcome the opportunity to discuss with the committee the financial bulletin, which was published in January. The financial bulletin gives an independent assessment of councils’ financial performance during 2021-22, and it sets out the increasingly uncertain, complex and challenging context in which councils are operating and the strain on budgets, which continues to intensify.

Councils across Scotland faced significant financial challenges during 2021-22, and they are now entering the most difficult budget-setting context that has been seen for many years. Increasingly difficult choices about spending priorities will have to be made. Even with the additional Covid-19 funding during 2021-22, councils had to make significant savings to balance their budgets. Many councils have also used reserves to bridge funding gaps and fund vital services.

Scottish Government revenue funding to local government in 2021-22 represented the first real-terms increase in six years—since 2013-14—if we exclude one-off Covid-19 money. However, an increasing amount of council funding is either formally ring fenced or provided on the expectation that it will be spent on specific services and national policy objectives. That ring fencing or directing of funds supports the delivery of key Scottish Government policies, but it removes local discretion and flexibility over how those funds can be used by councils to address local priorities.

Two thirds of councils intend to use reserves to help to bridge the 2022-23 budget gap. However, in our view, the use of non-recurring reserves, or the reliance on non-recurring savings, is not financially sustainable in the medium to longer term. The achievement of recurring savings and a movement away from the reliance on, and use of, non-recurring reserves will be key to ensuring longer-term financial sustainability. That makes the case for a continued focus on service reform based on strong engagement with communities being more important than ever.

For 2023-24, the Scottish Government announced additional funding of £570 million in December last year. That is expected to help councils to address upcoming cost challenges. However, with the scale of inflationary pressures, further change and reform across all councils is required to ensure longer-term financial sustainability. Councils have also noted that Covid-19 and inflationary costs are having an impact on capital projects. If those issues persist, they will present risks to councils' capital programmes, which form a necessary component of modernising services to deliver improved outcomes for local communities.

Thank you very much for listening to me. I am happy to take questions with my colleagues.

The Convener: Thank you very much.

I will ask the initial questions. You touched on this a little, but we would love to get a little more detail. The committee is keen to understand the 2023-24 budget impacts on local government. The commission noted in the financial bulletin the Government's position that the settlement sees a cash increase of £570 million—you mentioned that in your statement. However, the bulletin also acknowledges the position of the Convention of Scottish Local Authorities, which is that, once national policy commitments are taken into account, the increase is only around £70 million. That figure has recently been revised to £38 million. What is the Accounts Commission's view on those figures? How can both interpretations be correct?

Bill Moyes: Covid funding has complicated the analysis of the availability of finance and spending patterns. Pretty much everything that we will say today will be on the basis that we have excluded Covid funding—we are dealing with core funding. Covid funding was never meant to be a permanent part of funding local authorities. If we exclude Covid funding, the real-terms increase is 5.3 per cent. That is the figure that we would rely on. I will ask my colleagues whether they want to elaborate on that.

There are no takers.

The Convener: Okay. That is helpful—Covid funding is part of the issue.

The committee would also be interested to hear the commission's view on the letter in which the directors of finance sought an additional £1 billion of funding for next year. The Cabinet Secretary for Social Justice, Housing and Local Government told the committee that that request

"was just impossible ever to meet."—[*Official Report, Local Government, Housing and Planning Committee*, 17 January 2023; c 24.]

The committee will hear from three directors of finance on the next panel. As the public spending watchdog, what is the commission's view on that request by the directors of finance?

Bill Moyes: That takes us into the territory of what level of funding is sufficient and what level of funding is appropriate, which is not an area in which we can help the committee very much. We would say that that is essentially a political judgment rather than a technocratic judgment, and we are technocrats, by and large.

Andrew Burns might want to elaborate on that.

Andrew Burns (Accounts Commission): I amplify that—what the quantum should be is not territory that the commission would want to stray into. It is clear that there is a difference of opinion between the Government and COSLA—that is obvious for everyone to see. As the chair of the commission has said, we need to look at the technical side of the debate. Technically, as Bill Moyes has outlined, the position is that, this year, for the first time in six years, there has been a real-terms increase, but the longer-term picture is challenging.

All that I can add—everybody knows this; it is obvious from the overall flow of our reports—is that there is huge, significant and growing pressure on local government finances. Surely nobody could deny that. A political decision needs to be taken on the overall quantum of funding that is required to address those pressures and on whether flexibility can be built into the funding packages that local government has available to it, which is a topic that I am sure we will talk more about during this morning's discussion. I hope that that helps.

The Convener: Thank you. Flexibility is certainly an issue that is being talked about a lot.

Willie Coffey has a number of questions to ask.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning. I want to start by asking about the much-loved subject of ring fencing. Maybe someone will write a book about ring fencing one day, so that we can all understand it.

There are several figures going around. The commission thinks that 23 per cent of local government's revenue funding is directed or ring fenced for our shared priorities. The Scottish Government thinks that that portion is about 7 per cent, but COSLA thinks that it is 60 per cent. How have each of the parties arrived at those figures? Will you explain, in particular, how the commission arrived at its figure of 23 per cent?

Bill Moyes: I will kick off and then I will bring in Blyth Deans, who is the technical expert.

We think that about 7 or 8 per cent of local authority expenditure is ring fenced by law, which means that local authorities have absolutely no discretion over how to spend that money. We get to the total of 23 per cent by adding in the money that is not technically legally ring fenced but which has serious conditions attached, which means that, in practice, local authorities would argue that they have very little discretion over how to spend it. Of course, the Government will argue that they have discretion. However, in practice, the pressures on local authorities to spend the money in the way that the Government says that it wants it to be spent are pretty intense.

Blyth Deans will say more about that.

Blyth Deans (Audit Scotland): The chair of the Accounts Commission is correct in his assessment. The message that the Accounts Commission is keen to get across from the reports is that there has been a steady increase in the proportion of total revenue funding that councils receive that is ring fenced formally or comes with direction so that the expectation is that it is spent on particular service areas, projects or priorities.

Although we have not done it in the past, this year, to provide additional clarity, we decided to offer our assessment of what we consider to be ring fenced or directed. In the past, we have seen a huge discrepancy between what the Scottish Government and COSLA consider to be ring fenced. Our assessment broadly fits in between, but the chair of the commission explained the rationale behind it.

A big aspect of the situation, which we set out in exhibit 3 of the report, is the transfers from other portfolios. We can see that, for the 2023-24 budget, that total is £1.5 billion, so it is hugely significant. That has steadily increased over the past three years. In 2021-22, it was £500 million. In 2022-23, it increased to £1.3 billion, and in 2023-24, it is increasing to £1.5 billion. That has been a huge part of the increase in ring-fenced or directed funding.

Willie Coffey: However, your estimate is nowhere near in the middle of the two. COSLA estimates that 60 per cent of funding is ring fenced. We can ask the next panel of witnesses, but do you have any idea why it thinks that the percentage is so high?

Blyth Deans: It is difficult for me to answer that question, Mr Coffey. The directors of finance will be able to provide more information.

On the interpretations of what is ring fenced, COSLA considers, for example, the additional funding for pay deals or financial flexibilities and things such as loans fund repayments to be included within the overall total of what is ring fenced. There are lots of elements. I am not the best expert to talk to you about that, but colleagues in the next panel might be able to fill you in later.

Willie Coffey: Thanks very much for making that valiant attempt to explain the differences.

We can see from the report that budget gaps by council range from 1 per cent for Argyll and Bute Council to 22 per cent for Shetland Islands Council. Can you offer any views, Bill, on why such huge gaps exist between councils' funding gaps?

Bill Moyes: Again, I will bring in Blyth Deans, because he is the technical expert on that.

Blyth Deans: In the financial bulletin, we set out the aggregate budget gap for all councils for 2021-22 and 2022-23. For both years, that is round about £0.4 billion. Although there is such variance in the individual budget gaps at the local level, the quantum is broadly similar, so there is consistency.

It is correct to highlight that there are big differences from the top—Shetland—all the way down to Argyll and Bute. Shetland can probably be considered an outlier in that analysis. As you can see, its budget gap is close to 20 per cent. That is due to local decision making there, whereby reserves are used to plug the funding gap. I think that, for both years—2021-22 and 2022-23—99 per cent of the gap is due to be closed by the use of reserves. Clearly, there is an issue with the sustainability of that approach because, by their nature, reserves are non-recurring and, once they have been used, they have been used up. Therefore, there will need to be consideration at a local level about a more sustainable approach to closing budget gaps in the future.

However, that also highlights the point that individual budget gaps are driven largely by local circumstances and local decision making. For example, some councils might choose to use reserves if they have the luxury—if we can call it that—whereas others that are not in the same position will not be able to do so. Also, previous performance on delivering recurring savings will contribute to the budget gap that proceeds in the following years. Other elements can play into it as well, such as the decisions that councils take on council tax rate increases. It has not been the case so much over the past couple of years, of course, but there is a degree of variance in how much councils raise through that. The same applies to fees and charges as well as the use of the financial flexibilities that have been afforded by the Scottish Government.

That explains why there is a bit of a variance. Our analysis builds in how councils plan to bridge that gap. I can offer some analysis on that if it would be interesting.

Willie Coffey: That is helpful, Blyth.

You mentioned reserves, which brings me to my next question. The picture on reserves is varied. Bill Moyes, I think that you said that two thirds of councils plan to use reserves, which suggests that a third are not planning to use them. Is there guidance about the use of reserves and a reasonable level of deployment? Do councils broadly follow that advice and guidance? A third have decided not to deploy reserves and are perhaps looking to make cuts to bridge the gap.

09:45

Bill Moyes: We worry about the use of reserves by councils. Reserves are meant to be there for serious, unexpected events, or maybe to smooth financially the path from one pattern of service to another; they are not meant to fund day-to-day, core running costs.

We understand why councils are using reserves, but we have been saying to them, increasingly loudly, that that is not a sustainable strategy. Reserves are finite; when they are spent, they are spent. If we do not rebuild them, we will wake up one morning and find that we are in real trouble. We are pressing councils hard to be very thoughtful about not just spending reserves but projecting forward and considering, if they spend a certain level of reserve this year, what the next two or three years will look like and at what point reserves, on present patterns of expenditure, are likely to run out and leave them stuck.

For today, I would not criticise local authorities for spending reserves, because they are in a very tight position. However, if that pattern continues, we will have more to say about it.

Willie Coffey: I imagine that there is guidance about it. I am sure that a council would not be legally permitted to deploy all its reserves in one year. Is there guidance on that? I presume that, by and large, councils follow such guidance.

Bill Moyes: Well, councils have to break even, taking one year with the next. Blyth Deans might want to comment.

Blyth Deans: I would need to check, Mr Coffey, to be sure. I can tell you that, in the past, the Accounts Commission and Audit Scotland issued guidance on a recommended level of reserves balance that we think it would be prudent to maintain—it is 2 to 4 per cent of net revenue expenditure. That gives you an idea of what we would expect to see, almost as a contingency reserve.

Given the situation with Covid funding in the past few years, reserves have been almost artificially inflated. In our report, we present a figure of £4.1 billion of usable reserves, which makes it look as if councils are awash with cash and have a lot of contingency to fall back on. However, in exhibit 8, we show that only £0.4 billion of that figure is uncommitted; the rest is committed and is for particular purposes. Therefore, £0.4 billion is the true figure for contingencies.

Let me follow on from what the chair said. A message that we have been keen to get across in our reports—certainly last year—is to do with the transparency of reserves. We have seen a big improvement in that regard this year, with councils giving greater detail on what makes up their reserve balances. It would be helpful to go a step further and have transparency around councils' plans for spending reserves, including timescales. It is not clear from the accounts how long some funds have been in reserves and whether plans are still in line with councils' priorities. There might be a wee bit more for councils to do in taking that next step. However, as I said, there have definitely been improvements since last year.

Willie Coffey: Bill Moyes, you mentioned savings targets. According to my notes, councils achieved most of their savings targets in 2021-22. Have you assessed the impact of those savings on jobs and services? What are we looking at, going forward? In your opening remarks, you painted quite a bleak picture of the task that faces councils when it comes to the funding gaps that they must address. Councils successfully made savings in the past; how much more can they do in future?

Bill Moyes: We will publish a second overview report in May, in which we will look at councils' performance, as opposed to just finance. I expect us to cover points of that kind then. Blyth Deans or Andrew Burns might want to say more.

Andrew Burns: Mr Coffey, let me bring you back to your point about ring fencing. Without going into whose figures are correct, I think that we can all agree on one point, which is linked to the issue about the potential for savings: whatever the ring fencing percentage is, it has a gearing effect on where savings can be made. The more that is ring fenced, the fewer areas there are where local authorities can potentially make savings. No matter which figure you go with, the vast bulk of ring fencing is around education, health and social care, which pushes the need to make savings on to roads, footways, libraries, culture and leisure. As you alluded to in your previous question, it becomes increasingly difficult for local authorities to make savings because of the disproportionate gearing effect of ring fencing, no matter which percentage figure you accept. It is a challenge for local authorities to work out where to find savings year on year.

Carol Calder (Audit Scotland): We have the data that is in the local government benchmarking framework and we will analyse that in our local government overview. We sometimes find that the performance shown in that data plateaus, although it does not necessarily drop off.

We are hearing anecdotally from councils that services are becoming more rationed and that the criteria for receiving services are becoming tougher. That affects how services perform and the outcomes for people. There is more unmet need. It is difficult to quantify, but the more services are rationed or the more stringent criteria have to be met before people can access those services, the more people do not receive services. The data shows only part of the picture.

Bill Moyes: I have one other thought. I am not sure that it is wise to look at savings in isolation. Increasingly, councils must also think about their charging policies—what they do or do not charge for and whether the charges that are levied meet the costs of the service that is being delivered. Everything has to be taken together. That is why we press councils not to think about just one year but to have a medium-term financial plan that brings those things together and demonstrates their sustainability.

Willie Coffey: We will come to those issues in a wee while. Thank you for answering those questions.

The Convener: We have a few supplementary questions on the back of that. I will bring in Mark Griffin to ask about savings targets before Paul McLennan takes us back to our favourite topic of ring fencing.

Mark Griffin (Central Scotland) (Lab): My question is about future savings targets. We have seen some local authorities producing plans showing where they expect to make savings. They are coming to pretty tough decisions: one example would be Glasgow, which proposed making savings on teacher numbers. Then there was a Government intervention that essentially said that that would be blocked. How can local authorities plan for achievable savings targets if there is the potential for Government to step in and say that it does not like that and will not let councils do that?

Bill Moyes: That puts councils in a difficult position. One of our messages today, and every time that we are asked, is that the whole question of ring fencing has to be sorted out. We must get to a point where everyone is pretty clear what is absolutely required of local authorities and which areas are discretionary. That is very unclear for councils at the moment and they have to do their best, but that is not a satisfactory position.

Andrew Burns, do you want to add anything?

Andrew Burns: To add to what the chair has just said, that is linked to the gearing effect that I mentioned in my response to Willie Coffey's earlier question. The straight answer to your question is that it is incredibly difficult for local authorities to make savings year-on-year. You raised a topical story that was in the news last week and that illustrates something that Bill Moyes alluded to. Teacher numbers are not formally ring fenced, but councils are now being told that they cannot go there. I know that that is open to a potential legal challenge, but it illustrates the point that, the more often that happens, the fewer areas there will be where local authorities can make fiscal savings year on year.

I am sure that that will come up in our discussion. It all feeds into the question of the levels of fiscal flexibility and the freedoms that local authorities do or do not have. That was all supposed to come out in the new deal and the earlier iterations of the local governance review. We are all waiting for those with bated breath, but, until we see all that, local authorities will be in an increasingly difficult position.

Paul McLennan (East Lothian) (SNP): I will build on the issue of ring fencing. There is a difference between what COSLA is saying and what the Government is saying—the Government says that the ring-fenced portion of local government funding is 7 per cent, but COSLA says that it is 60 per cent. There are shared objectives, so the issue might be one of procedure, which takes us back to the point that Bill Moyes and Andrew Burns made about where that is agreed. This is all happening during the budget process, which makes it extremely difficult for councils to plan. Do you have any views on the procedure before that? How should we agree objectives in relation to where the ring-fenced money sits? I do not want to be in the same position next year. Is there a lesson that we need to learn on ring fencing and how shared objectives relate to that?

We cannot face the situation again next year in which COSLA says one thing and the Scottish Government says another about the procedure. I know that it is not as simple as that but perhaps we can learn from it to ensure that next year's budget process is less complicated. We are a few weeks away from councils setting their budgets and we still do not know what our shared objectives are and where we go with that. It is too messy. What are your views on that?

Bill Moyes: I will kick off and then bring in the experts. There is one thing that should happen that is not happening: councils have to move quickly to reassure the populations that they serve that if they change how services are designed and delivered, it does not mean that the services will be worse—although we have to acknowledge that in some cases it might. My worry about the current debate is that it would be very easy to squeeze out innovation and for people to say, “The way we have always done it is the way we’re going to do it in the future”. The onus is on local authorities to get their populations on side to produce a long-term plan that goes beyond just this year and does not say, “This is what we’re going to do and we’ll work out next year later”.

Councils have to start engaging the population, ensure that people understand the arguments, the risks and how those will be managed, and try to get the populations comfortable. If the population is not agitating, central Government ministers are more likely to step back and let the local authority give it a go to see if it works. The danger at the moment is that changes in the way that services are designed and delivered are introduced at a very late stage, apparently only for financial reasons, so I can understand why, in the context of education, for example, parents of children get jumpy. When the population starts to get agitated, central Government ministers want to try to calm things down, for things to be left alone and for the local authorities not to change anything. You cannot run a local authority on that basis. However, the initiative has to come from local government.

Andrew Burns: I completely agree with Paul McLennan that you do not want to be in this situation next year. The Accounts Commission does not want to see local government in that position and I am sure that local Government does not want to be in that position next year. I am also quite certain that the Scottish Government does not want to be in that position.

That takes me back to what I said in response to Mark Griffin: we hope that the long-awaited new deal that includes a fiscal framework will address many of the points that you have outlined by providing a set of rules that are jointly agreed by the Scottish Government and COSLA, around what is and what is not ring-fenced, whether loosely or formally.

I know that the cabinet secretary appeared before the committee a few weeks ago and made the point that the new deal, including the fiscal framework, is unlikely to be ready for the new financial year. The commission understands the reasons for that—the pressure that the whole UK economy, if not the whole world economy, has been under, has led to understandable delay. However, this all goes back to the local governance review that was launched in December 2017, which is more than five years ago. To get to the position that Paul McLennan wants and that the commission wants, the new deal needs to be delivered on, and I hope that the committee will press hard on that.

We accept that the Government and local Government face challenges in delivering the final version but it is long overdue. We hope that the new deal will address the specific points about the rules and agreements between the Scottish Government and COSLA that you raise.

Paul McLennan: Thank you for that.

The Convener: We are beginning to stray into the area in which I have questions that I am keen to ask. Bill Moyes, in relation to the financial bulletin, you stated:

> “If they are to find a safe path through the difficult times ahead, councils need to focus more on service reform”,

and you said something similar when you were in the committee previously.

I have a couple of questions on that. What more can the Scottish Government, the Parliament and COSLA do to assist with that process of reform? Do you have any specifics in mind? I have never been a councillor—although some of my colleagues here have—so I would like to know what you are getting at when you refer to reform.

Bill Moyes: I will take the first part and then bring in Andrew Burns for the second part, because he has been a councillor but, like you, I have not.

One of the points that we are trying to stress is that simply doing things the way that they have always been done is not a sustainable strategy. Councils have to be prepared to think about different ways to innovate and to deliver services and, most of all, they have to engage their populations.

10:00

If councils do not engage people and talk to people—if they are not honest with people, if they do not debate things and change their minds occasionally, when the population seems to have the better arguments—they will not be trusted by the population and there will be pressure to leave everything alone.

Given the financial pressures and given what we learned during the Covid pandemic about how services and their delivery could be changed and the question of whether all the central Government controls need be applied all the time, there is a lot of merit in discussing how we could do things differently, but it has to be an open discussion.

Andrew Burns: To give one illustration from my experience in a previous life, it is difficult to do, but one potential way of transforming service delivery is to do it in co-operation with your partners—normally, the local authorities that are geographically near you. I was involved in the City of Edinburgh Council and we had lots of joint working with Mid, East and West Lothian, with Fife and with the Borders, even. You see that in some structures as well—the transport partnerships and health and social care partnerships are often across regions, not just individual local authority areas. However, it is not straightforward and I am afraid that it takes us back to the whole debate on ring fencing and the gearing effect that I mentioned in response to Willie Coffey's earlier comment.

The more that money is ring fenced, no matter which figure you accept, the harder it becomes for local authorities to innovate. The more flexibility that local authorities have, the easier it would be for the chair of the commission to see what he wants to see in terms of service innovation by local authorities.

That brings us back to the new deal—if we had an agreed set of rules between COSLA and the Scottish Government about what was or was not to be delivered and what was or was not directed, I hope that that would free up a bit of space in relation to what could be done along the lines of the example that I just mentioned on co-operation between partners, mainly geographically adjacent local authorities. There are certainly things that can be done, there is no doubt about that, but a new framework would be a great help in freeing up the space for things to be undertaken with a bit more vigour.

Carol Calder: The partnership agreement will be important in relation to the new deal. You were speaking earlier about shared objectives—councils would argue that they are not shared objectives, necessarily, as councils are not at the table to determine what some of the policy objectives are and they would like to be involved in that discussion. Also, we need to recognise that councils are diverse—one size does not fit all—and that the knowledge of local areas and local needs is held by the people in the councils, as they engage with communities. As Bill Moyes said, that is vitally important.

It would be good if there was more flexibility for local government to work with the Scottish Government around shared objectives. We also need to ask, what is the role of local government? Are local authorities service providers, are they implementers of national policy or are they stewards of place? Are they there to enable and facilitate what happens locally?

There are some tensions in the existing system around the question of what local authorities do, and the partnership agreement could be really important in setting out what they do and in recognising a change in the relationship between local government and Scottish Government, where local government is given the flexibility to implement national policy in a way that suits local needs as opposed to it being a one-size-fits-all approach.

The Convener: Thank you. As of yesterday, the committee has started a series of inquiries into the community planning partnerships. You mentioned partnerships but you did not mention those particular ones. It is interesting that, in talking to communities, they feel that they are not at the table with councils. Potentially, there is another opportunity there as well as working geographically with fellow councils. We have this element in the local governance review, and it seems to me that the third part of the new deal is about that relationship with the third sector and with the community, which needs to be picked up. Potentially, we have an opportunity, with the review of the Community Empowerment (Scotland) Act 2015, to bring in that element.

Andrew Burns: I strongly agree with the point that you are getting at. There are things that can be done within local authorities. For example, as the chair of the commission said, community partnerships are one mechanism whereby, through the involvement of local communities, councils can get input from the experts, because it is often service recipients who are the experts. All of us are service recipients of many local authority services. Sometimes that input from service recipients is lacking, but it can be beneficial.

The Accounts Commission's best value reports of all 32 local authorities look at how they are developing and using community partnerships and community planning. Frankly, the picture is varied across Scotland. Some are absolutely excellent and involve their local communities in great detail; others much less so.

I encourage the committee, if you have the time and inclination, to look at elements of the best value reports that the Accounts Commission has produced, which highlight best practice around community planning and community partnerships.

The Convener: That is great—and, yes, we got a varied picture yesterday.

Carol Calder: There are lessons to be learned from how councils, communities and partners worked together through Covid. The art of the possible was demonstrated during that period. What was different was that councils, communities and the Scottish Government were working to a clear common purpose. There was a scaling down of bureaucracy to make things happen at pace. There was trust in the community to deliver services and trust in councils to know what was needed in local areas. That is the exemplar of how it can work. Disrespecting the boundaries between different agencies in serving the needs of the place is very important and that is where we can make change.

As well as the best value audit reports, I also direct the committee to the "Principles for community empowerment" document that we produced in 2019. We did a Covid follow-up in 2021. There are five guiding principles: community control; public sector leadership; effective relationships; improving outcomes; and accountability. Those principles could also be applied to the previous question about reform and how we make services change. We can look to how councils worked with communities and partnerships during Covid to see what can be done and ask why it worked. Some of the points in that are around the loosening of the ties, trust and scaling down of bureaucracy.

The Convener: Thanks. We will definitely take a further look at the principles that you outlined.

I also like the question that you posed earlier about whether councils are stewards of place, which is certainly coming up in relation to the national planning framework. We are talking about place making and 20-minute neighbourhoods, so that is an interesting element. It feels like there are some points that we need to join together more.

Miles Briggs (Lothian) (Con): Good morning, and thank you for joining us. I will ask about local authority net debt, which we know increased by £0.2 billion to £16.4 billion in the financial year 2021-22. Why did that happen? Is there variation in councils around the additional debt level? With regard to public-private partnership agreements specifically, are you aware of any variations that are impacting on debt levels in different councils?

Bill Moyes: I will ask Blyth Deans to kick off, and then we might come in.

Blyth Deans: The overall increase in net debt was, indeed, £0.2 billion in 2021-22. That contrasts sharply with the previous year, when there was a £1 billion decrease as a result of the late Covid funding that was received, which had a huge knock-on effect for the cash balances of councils. By comparison, the £0.2 billion increase feels like quite a small movement, but I am happy to talk through our understanding of why that happened.

Just under half of councils increased their net debt in 2021-22. Without oversimplifying things, by "net debt" we mean the overall total of debt that councils hold, minus their cash and investments. The overall increase in net debt could be related to an increase in total debt, but it could also be related to a decrease in cash and investment balances. The analysis that we carried out suggests that that is the main reason why that happened; 19 of 32 councils increased their long-term borrowing, 15 of 32 increased their short-term borrowing and 20 of 32 had lower cash and investment balances, so it feels as though that is the main reason for that movement being recorded in the accounts.

Our overall understanding is that net debt at a local level is largely driven by the local treasury management or capital investment strategies that are in place. Given the nature of our overview, we have not reviewed that. We get information from the local audit teams who carry out the work, and the matter will be firmly on their radar. However, no weaknesses have been identified and brought to our attention. That is as much as I can offer by way of a conclusion on how effective those strategies are.

We had a look at some year-on-year movements in order to seek to understand why certain councils had bigger increases in net debt than others, but the reasons were not particularly exciting. They included some increases in finance lease obligations and councils taking advantage of quite attractive interest rates at a point in time to take additional borrowing to assist with cash flow. As I said, nothing really jumped out as a particular red flag. The overall position seems fairly normal.

Miles Briggs: That was a detailed and helpful answer. Do you think that there is any correlation between councils' higher net debt levels and their central Government funding levels? Has that been explored? I note that my council—the City of Edinburgh Council—and Aberdeen City Council are the two lowest funded.

Blyth Deans: The quick answer is that that has not been explored, so I am unable to offer an answer on it. It is certainly something that we can consider as part of future financial bulletin work but, as I said, it has not been on the radar up to now.

Miles Briggs: Is any more detail available on where public-private partnerships will go in the future, and potential changes? Some councils are looking at their payback terms and things like that. Has any of that been flagged up to you during your investigations?

Blyth Deans: Not at the moment. We have information that we draw from the accounts on the split between the short-term and long-term liabilities that are related to those PPP contracts. As the cabinet secretary mentioned to the committee a few weeks back, the value for money in some of those contracts is perhaps not what it might have been.

It is not an issue that we have analysed at this point. We have not been made aware of any changes in approach. Council directors of finance might be able to offer more insight into that at a local level but, as I said, the Accounts Commission and Audit Scotland have not picked up anything at this point.

Miles Briggs: That is helpful. We have talked a few times about the additional resources that were provided because of Covid. Is there anything that you can contribute on lessons that have been learned in that regard, maybe about different service delivery models and whether they have been embedded? The third sector was utilised more during Covid. Has there been a long-term shift in that regard in the delivery of services, given the potential savings?

Andrew Burns: Obviously, none of us would have wished Covid to happen but, as Carol Calder said, lots of things were done very effectively. You make a specific point about the involvement of the voluntary sector in service delivery at a local level. I am not going to sit here and claim that it was all 100 per cent perfect, but a lot of really innovative, fast-paced and effective service delivery was undertaken in the immediate aftermath of the March to December 2020 period. Some of that is still going on, but I think that the commission would say that there is also a lot of evidence that we are going back to old ways. I do not want to sound like a stuck record, but that brings me back to the new deal and the fiscal framework that might come within that.

As Carol Calder indicated, if there was a loosening of rules, with more trust and potentially more flexibility and more revenue-raising avenues for local authorities to follow, they could then pass on those conditions to the voluntary sector in their local areas. All of that would potentially replicate the atmosphere of service delivery and service transformation that we saw at the height of Covid-19.

I think that the commission is worried that, although there was a lot of good practice during that period, as Carol said, and some of it has continued, it is starting to look as though we are going back to the old rules and regulations.

Miles Briggs: Yes. We have heard about that previously.

10:15

Carol Calder: We are exploring that issue in the local government overview—the more narrative report—which we are pulling together at the moment. That will come out in May.

We have not seen a big shift towards different models of service delivery and, as yet, we cannot see a big shift around joint services or lead councils. A “once for Scotland” approach to services has been discussed as an option. We have not seen that change yet, but there is a lot of discussion about how the model for councils needs to change, and there is an appetite for that. It comes back to the point about what councils are for. At the moment, we are not seeing a shift, and there is a danger that, if the learning and flexibilities that were available during the pandemic tighten up, that will restrict the ability of councils to do things differently.

There is a lot to be said about the fact that when there is more flexibility and more freedom, there is more ability to innovate. Doing that involves discussions with communities. It is all wrapped up with community empowerment, place, local needs, local knowledge and local potential. All of that comes into play but, at the moment, we are not seeing that change.

In the overview report, we will say that this cannot go on. Councils are not sustainable financially and services are not sustainable unless there is a big shift in the way that services are provided.

Miles Briggs: I have one final question. We had the integration of health and social care, the pandemic and now we have what the Government is proposing with the national care service. I know from speaking to councillors from all parties that that has created an environment in which they are not able to look at what has been, what currently is and what they want in the future. Do you think that that is preventing innovation and the capturing of different models that have been successful during the pandemic? Are we preventing those from being embedded now, as we pause while we wait to see what the Parliament will present to councils?

Carol Calder: I am sure that that is an issue, and if you ask some of the people who will be on the next panel of witnesses, I am sure that they will be able to confirm that.

The uncertainty about what is happening with the national care service—about what the workforce might look like and what local government will look like when social care is removed from it—inhibits the creative space that is required to look at different ways of delivering services.

I am sure that the issue that you raise gets in the way, but you probably need to ask council directors and chief executives that question.

Paul McLennan: I want to move on to the question of the revenue-raising options that are open to councils in the short term and in the medium to long term. I will start with the short-term options. What are your views on councils' ability to raise their own income and how much that has changed over the past decade?

The second part of my question is about the longer term. The committee has been doing a bit of work on what other countries do in relation to local government finance. We found that councils in Scotland and the rest of the UK raise about 15 per cent of their own income, whereas in Europe that figure is around 50 per cent. We have looked at the workforce parking levy, the visitor tax levy and so on. That would almost be a start, but do we need to consider whether we can give local authorities more powers to raise income in that way? Councils could pick and choose from the available powers. I am not suggesting that Scotland should go down this route, but some other countries have local sales taxes, local income taxes and other taxes.

I would like to get your thoughts on the ability of councils to raise their own income, in the short term and the medium to long term.

Bill Moyes: We are certainly encouraging local authorities to look at the range of services that they provide and think about whether there is a case for charging and, if there is, what level of charging would match the cost of delivering those services.

However, there is a long way to go. In our estimation, the public assume that public services are free at the point of need, based on the national health service model. However, that is not true of the NHS and it is not true of most services. There is a lot of work to do to change the acceptance of charging, before we get into the detail of it.

Our view is that local authorities need to get on with it, but they cannot create a blanket charge for everything. The issue has to be really thought through and the community must be engaged and must understand the reasons for such charges.

Carol Calder: I know that some parts of the sector are calling for more powers around general competence rather than specific income-raising powers because Scotland is diverse. Every council will say that it is different from the next council, and what will suit local communities in respect of how they can raise money will be different. Parking and visitor levies may not be great for certain communities, but they might see different kinds of levies that would be appropriate for them. The question is whether they have the general competence in order to pursue those. It is about flexibility and freedoms.

I cannot answer off the top of my head what the change in income in fees has been over the past decade. That has never been an enormous part of the budget. However, there is one thing that we would be concerned about. Any revenue-raising powers and any revenue that is raised should not be a substitute for core funding. Revenues that are raised in the local community ought to be for the council to spend flexibly in the local community. That is the point that I would like to make.

Andrew Burns: We very much agree with Carol Calder's latter point. Any flexibilities that are delivered need to be seen as additional to core revenue. Core revenue has to cover the delivery of core services.

On the point about the short term and the medium to longer term, there has not been a lot of movement. I do not think that the Accounts Commission can see a lot of movement around flexibilities in the past few years. However, there is a little glimmer of hope—if that is the right phrase—on what is coming down the tracks. Everybody will be aware—certainly in Edinburgh, where a visitor levy has now been approved and will come into operation in the next year or so—that none of us will know the full effect of the visitor levy in Edinburgh for a few more years. The commission, MSPs or local councils will not know that. However, the commission's view is that there is a welcome willingness to devolve some powers to local authorities to give them a degree of flexibility to add on to the core grant that Carol Calder alluded to. However, there is a lot more that could be done.

Paul McLennan: That point and the point that Carol Calder made about general competence might need to be raised. I do not know whether that should be done through looking at the new deal. If the issue is general competence, it is about widening local authorities' ability to look at that, and that could involve a discussion with COSLA. That is a valid point.

Andrew Burns: I agree.

I have a final point about the figure of 50 per cent that Paul McLennan mentioned. I am very familiar with that. That figure applies to most of continental Europe and much of England. Local authorities there can raise up to 50 per cent of their revenue directly, whereas, as was said, the figure in Scotland is much lower.

Loads of work has been done on that. COSLA produced a detailed study of that in 2008-09—I have forgotten the name of the report, which was on strengthening local democracy. That showed a path to get from where we are now at 13 to 18 per cent—the figure varies a little—to 40 per cent. That brings us back round to the potential inclusion of some of that in a new deal and a fiscal framework. That approach would give local authorities a huge boost in flexibility to add on to the funding of core services, and that would—it would be hoped—allow them to pick up on some of the transformation points that the chair of the commission made in earlier comments to the convener.

Paul McLennan: Obviously, there are inflationary pressures at the moment, and there is long-standing capital spending that local authorities planned for. Inflation has jumped up massively from last year to this year, and nobody could have predicted that. Are you confident that local authorities can invest in infrastructure that they have almost agreed on in the past year or two, given where inflationary pressures now are?

Bill Moyes: What will really have an impact is increased interest rates. That is just beginning to emerge. We have had a lengthy period of very low interest rates, and we have kind of got used to that as being the norm, but it is not the norm.

When I was preparing for this meeting, a case that was drawn to my attention was Highland Council's planning to build a school using borrowing. The construction cost was £15 million and, initially, the amount to be paid back was around £23 million. However, that was when interest rates were 2 per cent. With interest rates in the region of 5 to 6 per cent, the amount that the council will have to pay back is now £50 million. That is bound to influence the assessment of whether the project is viable.

A lot of similar things are happening. People are scratching their heads and wondering, for example, whether they should do a certain project or should do it as quickly as they had planned. That is part of what we have to keep an eye on.

Paul McLennan: My next question was going to be whether you will be monitoring that over the next year, because there will be an impact on the delivery of capital projects, whether they are delayed or spread over a longer period of time.

Bill Moyes: Undoubtedly. Our annual financial bulletin will look at the situation from a financial point of view, and our overview will look at it from the point of view of the impact on services, so the answer is yes.

Paul McLennan: Thank you.

The Convener: We move to questions from Annie Wells, who joins us online.

Annie Wells (Glasgow) (Con): Good morning. During this session, we have heard mention of the new deal. What is the commission's understanding of how the new deal between local government and the Scottish Government is progressing, and what are the obstacles to reaching an agreement?

Andrew Burns: It is possible that I will repeat a little of what I said in earlier comments.

The commission's understanding was that, until very recently, the new deal was on track to be formalised and concluded for the beginning of the financial year 2023-24—basically, this April. The Cabinet Secretary for Social Justice, Housing and Local Government was before you just a couple of weeks ago, I believe, and confirmed that, unfortunately, that is not going to be the case. From the commission's perspective, we are sympathetic to the rationale and to the reasons why. Specific global and United Kingdom pressures around financial issues have led to that delay.

However, we make a plea. The old saying is, "Fix the roof while the sun shines", but the sun ain't shining just now, fiscally. As the chair of the commission has outlined, it is a really challenging time for local authorities, and we need a longer-term fiscal framework, in which, potentially, we could move away from single-year settlements for local authorities from the Scottish Government, to multiyear settlements. That would make a huge change to their ability to plan for the medium and long term, all as part of a fiscal framework within a new deal.

Our understanding is probably very similar to yours, at the moment. It is based on what the cabinet secretary said a few weeks ago. I think that I am right in saying—it will be on the record—that she indicated that, potentially, it would be a few months away. I encourage everybody who is involved in the debate in the most diplomatic way possible to keep the pressure on the Government and COSLA to make sure that it is delivered within a few months, because there is a danger that we will just end up slipping into the next electoral cycle.

Right at the start, in answer to one of the convener's original questions, I mentioned that the local governance review, which precedes all of this, was launched in December 2017—two cycles ago, almost. Collectively, we need to guard against slippage into another electoral cycle and to make sure that there is a jointly agreed fiscal framework within the new deal, within the next few months, as the cabinet secretary said.

Annie Wells: Perfect. Thank you for that, Andrew. I think that we all know that saying. When the sun is shining, fix that roof.

You spoke about a fiscal framework and how that could operate in practice. For example, you mentioned multiyear funding. Can you shed light on any other information as to how other new financial arrangements could work?

Andrew Burns: I might bring in Blyth Deans and Carol Calder on the detail, but I refer the committee back to the resource spending review, which was launched in May 2022 by the Cabinet Secretary for Finance and the Economy, Kate Forbes. That outlined, in quite some detail, what could be included in a fiscal framework. I think that I am right in saying that that has been repeated in written evidence that the current Cabinet Secretary for Local Government, Housing and Planning, Shona Robison, has given to the committee. She gave oral evidence just a few weeks ago, as I have mentioned a few times.

A lot in the resource spending review—none of which, to the best of my knowledge, has been rowed back on, although I will turn to Blyth and Carol in a second—would make a great deal of difference to local authorities, not just through the longer-term settlements of one, two or three years but in other aspects. Blyth or Carol may want to come in on the detail.

10:30

Blyth Deans: I will make just one minor point. On agreement of the fiscal framework, there is the option to consider what that includes. I know that the previous evidence session also touched on that in relation to the distribution model, so that could be reviewed at that point in time. Clearly, there might be winners and losers from a change in the distribution model, but it is for the Scottish Government and COSLA to determine the right distribution model. That could be primarily driven by population or there could be a shift towards deprivation as the main driving factor in how funding is distributed. Having the fiscal framework in place will make those discussions more straightforward than they probably have been up until this point. However, the sequencing is correct with regard to having the fiscal framework fully agreed before engaging in those further discussions. There could be some really big benefits from exploring that aspect further.

Carol Calder: There are some principles that we would like to see in the fiscal framework. We want to see more certainty and stability, so that funding—and, hence, services—can be sustainable. Obviously, given the discussion that we have had already about a reduction in ring fencing, we would like to see more transparency. We would also like to see more certainty in respect of in-year changes—the money that comes in during the year—because it is a very complicated picture throughout the year. There are many changes and additions to the budget, including small and large amounts, which come with and without conditions attached, as well as with reporting requirements. We think that there should be a reduction of the burden on councils with regard to reporting on specific grants that they are given.

I am trying to think of what else we want to see. Those things really help councils to improve their ability to plan and budget, look at services going ahead and create a bit of headspace to do the things that take a bit more time, such as looking at prevention. How will the new deal improve outcomes? How will it enable better trust among local government, the Scottish Government and communities? How will it enable them to work together to look at prevention and early intervention and come up with plans that are realistic and deliverable? There are a lot of principles that we would like to see in the framework, once we know what it looks like.

Annie Wells: Thank you for that. My final question is about the local governance review. What has happened to the wider local governance review beyond just the relationship with local authorities? What should be happening to improve community empowerment, local democracy and community wealth building? Do you believe that communities are more empowered than they were when the Community Empowerment (Scotland) Act 2015 was passed? That is maybe a question for Bill.

Bill Moyes: The short answer is that I am not sure that we know in detail. We are making it quite clear to local authorities that we believe very strongly in community empowerment and engagement. From personal experience, I know that that can be quite a painful thing to do, because people are not always very restrained in the criticisms that they offer. However, it undoubtedly improves relationships and services, so, as a philosophy, we think that it is the right thing to do and we want local authorities to do more of it across the piece. Does Carol have anything to offer with regard to examples and what we think of them?

Carol Calder: I was thinking not about examples, but about the fact that everything that I just said kind of applies to that. It is very difficult for community empowerment to work if there is no flexibility in what councils can do. For me, empowerment has to be real and based on trust, co-operation and co-production, all of which we saw during the pandemic. However, fundamentally, it is about having that local flexibility to actually do things differently. If you engage communities, you set up expectations that things might change in the way that they want them to. Therefore, the important part is more flexibility locally to implement national policy in a local way to reflect local diversity.

Andrew Burns: To go back to Annie Wells's opening point about what has happened to the local governance review, we maybe touched on that earlier but, to reiterate, our understanding at the Accounts Commission and Audit Scotland is that the main tenets of the local governance review, as you can see in the foreword and commentary to the resource spending review, are being subsumed into the resource spending review, which should deliver the fiscal framework as part of the new deal. Those elements are all interconnected, but you alluded to a strong point, which is that, collectively, we need to keep track of some of the commitments that were made way back in the initiation of the local governance review—which, as I have said several times, goes back to December 2017—to make sure that those are being followed through in the delivery of a new deal fiscal framework, as part of the RSR.

Annie Wells: Thank you very much for that.

The Convener: That brings us to the end of our questions. I thank the witnesses for coming this morning—it has been very useful to get your perspectives in a bit more detail.

10:35

Meeting suspended.

10:42

On resuming—

The Convener: With our second panel of witnesses, we will focus on local government finance and potential fiscal arrangements under the new deal for local government.

We are joined in person by Martin Booth, who is executive director of finance at Glasgow City Council and chair of the Chartered Institute of Public Finance and Accountancy's Scotland branch, and Kirsty Flanagan, who is executive director at Argyll and Bute Council and chair of CIPFA's local government directors of finance section. We are joined online by Robert Emmott, who is executive director of corporate services at Dundee City Council. I welcome our witnesses to the meeting.

The COSLA president told the committee that councils are facing

"probably the most worrying set of challenges that we have seen in local government for many years."—[*Official Report*, *Local Government, Housing and Planning Committee*, 13 December 2022; c 36.]

Do our witnesses agree? If so, what specific challenges are facing their local authorities and the communities that they serve? We will start with folk in the room.

Kirsty Flanagan (Chartered Institute of Public Finance and Accountancy): I absolutely agree that we are facing significant challenges. This is probably the worst year that many directors of finance in the section have ever experienced in trying to balance the budget. There is a perfect storm in that we have come out of Covid and we are faced with increasing inflation pressures, increasing interest rates and increased demand for services. All those things together give us a really challenging situation for balancing budgets in the current year and the year that we are about to enter, as well as for the financial sustainability of services into the future.

The Convener: Thank you for laying out that difficult picture.

Martin Booth (Chartered Institute of Public Finance and Accountancy): Kirsty Flanagan has covered the main points. I think that the pressure from inflation this year has made it the worst or most difficult year that we have ever had. On the back of that, there has been real demand for services because of the cost of living crisis.

Overall, the future financial sustainability of local government must be brought into question. That led to the unprecedented act of the 32 local government directors of finance writing jointly to the Deputy First Minister and Cabinet Secretary for Covid Recovery at the end of last year.

The Convener: Robert, when you want to comment, please type the letter R in the chat function. However, I will bring you in now if you want to add anything to what has just been said.

Robert Emmott (Dundee City Council): Thank you, convener. I highlight the pressure from pay. Two thirds of our costs are staff pay, so a lot of our costs are pay related. I do not know whether you have seen the Scottish Joint Council's recent request for next year's pay settlement, but it asks for a 12 per cent uplift. I will not comment on the specifics of that, but I highlight that the pressure has not gone away and that a dispute is still going on around teachers' pay for the current year.

10:45

In previous years, we have had the ability to manage and to make changes to services in the context of the fairly low inflationary environment that we have been working in. We are now in a very different place. The other thing that it is worth being thoughtful about in that context is the cost pressure on PFI and PPP contracts, which are largely based on those statistical inflation indices, so they are not escapable.

The Convener: Thank you for that. The Accounts Commission highlighted a real-terms increase in Scottish Government funding to local government in the 10 years since 2013-14. In 2023-24, there is again a real-terms increase compared with equivalent budget figures for 2022-23. I would be interested to hear why local government argues that a settlement of £13.2 billion for local government is not enough. What more is required?

Martin Booth: On the back of the Accounts Commission report that you have just been discussing, and the press coverage of it, a

Scottish Government spokesperson quoted the real-terms increase to the Scottish Government's budget, but then referred to increases in cash terms when referring to local government. They did not compare like with like, because those things do not compare. There have been significant cash increases, but that is because they have come with additional services. In recent years, we have had the introduction of the 1,140 hours of childcare and free school meals. Those services that have been introduced are funded, which increased the overall amount of funding.

You asked earlier about the £570 million. That is not extra money to deliver existing services; it is predominantly to deliver additional commitments from the Scottish Government, be it for funding towards pay or the transfer of empty property relief from non-domestic rates to local government from the Scottish Government. It is about additional services and additional roll-out. For example, the next stage of free school meals is included in that.

The actual increase in local government funding from the Scottish Government this year is £71 million. The £38 million figure that you quoted earlier was from before last week, when another £32.8 million was returned to the local government settlement.

Kirsty Flanagan: It is unfortunate that people compare the increases in different ways. We would like to get to a position where we all compare them in the same way. The context in which the £570 million was spoken about was the COSLA ask being £1 billion. However, the £570 million and the £1 billion are two different things. The £570 million relates to additional services, so it does not meet any of the £1 billion pressures—or, as Martin Booth says, there is £71 million there to meet that £1 billion of pressures. It is unfortunate that different figures get bandied about in different ways.

The Convener: Thanks for that. I hope that, with the work that is being done on the new deal, we can get that clarity and that alignment.

I will come to Robert Emmott first with my next question, which is about the letter from the directors of finance to the Deputy First Minister. It states that, over the past five years,

"local government has delivered a range of new policy initiatives which have not always been fully funded over the longer term".

Robert, I would be interested to get your perspective on that, and I would then be interested to hear from our other witnesses if they have things to add. Which policy initiatives in particular have been delivered by councils? What impact have they had on local authority finances?

Robert Emmott: I do not see any significant differences between what councils are trying to do and what the Government is trying to do. We are very lined up in relation to that. The priorities that we have just agreed for our council around addressing child poverty, addressing climate change and growing the economy are very much in line with what the Government is trying to do.

My colleagues have just talked about the importance of understanding the differences and what we are trying to do. The 1,140 hours of childcare is one of the best examples of the initiatives that councils are taking forward. In that case, significant additional funding has been provided for councils to do something that they support, which is welcome.

I do not think that there is a difference in policy terms, but there is a real challenge in how we are managing to deliver on-going services that continue to need to be provided. In my council, we have made savings of the order of £140 million over the past 10 years or so by making things more efficient and redirecting resources to where they are needed. Funding has come for new initiatives, but we have had to look at what we are doing in relation to other services in the background in order to meet additional cost pressures in services. They vary from council to council. The cost pressures that are being faced in remote and island areas are probably very different from the challenges that we face in Dundee.

One of the discussions that we have been having through COSLA is about funding for the core, day-to-day services that we provide as well as funding to invest in and deliver new services.

Kirsty Flanagan: Robert Emmott mentioned early years funding. Additional funding has also been provided for additional teachers and for free school meals. The issue is that that funding is given in one year but is never inflated in future years. We therefore have to meet the cost of that inflation in future years, which erodes some of our other core services.

There was discussion earlier about how much is controllable within local authorities, and that figure becomes smaller when we have to continue to pay for the inflationary aspect of those policy initiatives. We would therefore like inflation to be built in for future years in new policy initiatives so that they do not erode existing core services.

Martin Booth: An example is the funding that was provided for free school meals. We are all aware of the inflationary pressures on food prices from our domestic shopping bills. The same pressures apply to local authorities buying the food to deliver those free school meals, but no account is taken of that.

The 1,140 hours of childcare that Robert Emmott mentioned were built on an existing policy. A number of hours was already provided, but there was no protection for that bit of budget, so that inflationary pressure goes back even further than the introduction of the 1,140 hours. Pay inflation since then has been significant—it has been much higher than in previous years—but that is not funded.

Willie Coffey: Good morning. I will invite you to dive into the ring-fencing swimming pool and offer some perspectives on the discussion that we had earlier. You might have heard Bill Moyes say that the Accounts Commission estimates that about 23 per cent is ring fenced while COSLA says that it is about 60 per cent and the Scottish Government that it is about 7 per cent. What is your perspective on those figures? Will you offer the committee an explanation of how you have arrived there?

Martin Booth: It is one of those issues where everybody is kind of correct depending on how they interpret it. Bill Moyes was clear about the legal ring-fencing part, which is the bit that the Scottish Government refers to. The other part is really about direction. For example, for the past three or four years, the Scottish Government has insisted that we provide flat cash as our contribution to the health and social care partnerships. For Glasgow, that means that we spend just under 30 per cent of our budget on social work. If we have to give flat cash, it restricts what we can do with that. I would argue that that 30 per cent is absolutely directed, which is where we get to COSLA's figure of 60 per cent.

As was brought up earlier, there was obviously a bit of change in relation to teachers last week. That is directing spend. If we are not allowed to change our teaching workforce, it directs that spend. I would argue that, if that comes in, the figure is much higher than 60 per cent. I note that 39 per cent of Glasgow's spend is on education, of which a very sizeable percentage is spent on teachers. When we start to add all those bits together, as well as the funding that comes directly from departments for particular initiatives, we get to a very high figure. I would argue that it is well over 70 per cent. However, it comes down to our interpretation of what is directed and how much flexibility there is around that direction.

Willie Coffey: Thanks, Martin. Kirsty and Robert, do you have perspectives on the figures and why they vary?

Kirsty Flanagan: Martin Booth explained it very well and I agree with him. The figure is above 60 per cent and is probably closer to 70 per cent, which means that, when we have a gap in the budget, we look at the other 30 per cent to try and deliver the saving. That is really challenging because those services mean a lot to the public. I am not saying that education and social work do not mean much, but it means deeper cuts to waste services, bins, and leisure and cultural facilities because we consider the remainder of the budget to be ring fenced.

Robert Emmott: At the heart of the discussion is where decision making for local government lies. We can have an argument about the percentages and where the control is. From a local government perspective, we want there to be local decision making on the best ways to invest, whether in teachers or in social care, and where the borders are for those. We have been discussing the balance between support staff and teaching staff in schools, which is a decision that needs to be made locally.

The issue is partly about that relationship, which is at the heart of the question that the new deal addresses about how we make decisions that best serve our communities. You talked earlier about community empowerment and how decisions can be made at community, council or Government level in order to achieve the best outcomes. Going back to what I said before, I note that, when it comes to what outcomes we achieve, we are consistent about what we want to get to, but the important thing is to understand the outcomes in the best way and have an open conversation about the best way to achieve them.

Mark Griffin: I want to talk about how in-year transfers from other Government portfolios are viewed and treated by local government. Central Government contends that in-year transfers are part of the general revenue grants that councils have full discretion over and autonomy to spend as they see fit. What is your view on in-year transfers from other portfolios? What reporting mechanisms are attached to those and what restrictions are there on how you can use them?

Martin Booth: First, we do not have full discretion over how we spend those transfers, as they come with specific requests. For example, two education policies that came in last year were free school music tuition and not charging for core curriculum activities. That means that we do not have discretion to continue to charge for music tuition. In the past, councils had different policies on that, and councillors might have decided that charging children for music tuition was the lesser of two evils. That discretion was taken away.

Secondly, such things come with reporting requirements. In 2022, there were 77 papers to the settlement and distribution group to agree the basis of funding and how it was allocated. Those were generally for departmental transfers. In 2021, there were 93 such papers. That is a lot of individual pots of money that come with reporting requirements. We are often told that the reporting will be light touch, but it is still reporting. In an environment where there is significant financial pressure and we are reducing staffing, every bit of reporting brings a challenge, because the same scarce resource has to do it all.

In general, we agree with the intent of the point that Robert Emmott made. We are not miles apart on what is important. The issue is the strings that come with that and the levels of direction. My argument is that we should agree strategic priorities. Robert Emmott mentioned child poverty. Dealing with that is really important, but the best ways to deal with it will not be the same in Glasgow and in Argyll and Bute. A far more powerful tool would be to give local authorities the flexibility to determine the best ways to deal with child poverty to meet their local circumstances.

11:00

Kirsty Flanagan: There is an administrative burden when we have to do reporting on all the additional sources of funding. Martin Booth mentioned the number of funds that exist. We raised that issue in the letter from the directors of finance to the Deputy First Minister.

The public's expectation is that there is still more that we can do during this time of real financial pressure. They see the new services coming online and they think that local government can still continue to provide. That is becoming challenging as well.

Mark Griffin: I guess that the ultimate test of whether councils have autonomy is whether there is any clawback. If you decided to continue charging for music tuition, could the Government claw back the funding that it provided for that? Would that apply for anything else—for free school meals or any other initiative—if councils did not spend the money on what the Government had asked them to spend it on?

Kirsty Flanagan: That is topical given the situation that arose in education last week when the Government intended to put in some legislation about pupil to teacher ratios. The Government will say that we have autonomy, but what happens if we do something that is not liked? Some savings options were leaked into the public domain from some councils, and that is why that intervention happened last week. What real autonomy we have is an interesting question.

At the start of November, we got a letter from the Deputy First Minister that made it quite clear that, as democratically elected bodies, councils have the freedom to spend our resources and take decisions as we need to for our local circumstances. However, if we put that into practice, I do not know whether it would be allowed. I think that it is a test.

Willie Coffey: I want to ask each of the three witnesses for their perspectives on the use of reserves. Earlier, Bill Moyes said that two thirds of councils are planning to deploy some element of their reserves to meet requirements for the year ahead. Will you each offer a perspective on what your council is doing, as well as giving a general perspective on how you see the whole position about reserves and how they should be used and deployed in local government?

Martin Booth: Our colleagues from the Accounts Commission covered that reasonably well, in that they explained the difference between earmarked and unearmarked reserves. Quite a lot of our reserve balances are held for particular purposes—quite often, it is a Scottish Government commitment—and funding often comes very late in the financial year and cannot all be spent in-year, but it still has to be spent for that particular purpose.

Unearmarked reserves are the ones that we are focusing on. As Blyth Deans said, every council has a policy, but Audit Scotland's guidance is that councils should hold unearmarked reserves to between 2 and 4 per cent of net expenditure. Smaller councils might be closer to 4 per cent, whereas larger councils have more flexibility and can be nearer to 2 per cent.

Glasgow's policy is to hold unearmarked reserves to 2 per cent, and we hover around that mark most of the time. In the current financial year, we will dip a little bit below that. The figure is there for resilience, and we have tested resilience this year because of the cost of living and the inflation of energy costs and utilities, in particular. However, we will aim to recover that in the medium term.

There is perhaps a bit of misunderstanding about the use of reserves to balance budgets. We certainly would not allow the use of reserves to balance the figures. They would be used when there is a saving put forward that will not deliver its full value in-year; we might use reserves to underpin that. Again, we can only use reserves once, so that would be a very difficult decision to take, but the practicalities mean that we sometimes use reserves to buy us time for a particular saving to fully deliver.

For example, a saving in education operates on a school year, from August to June rather than from April to March. It is often difficult for education to make a saving starting from 1 April, so you will get roughly two thirds of the saving in-year. You might use reserves to underpin the other third, because you know that it is coming. I would consider that to still be prudent, and I think that it is probably the way that most councils use reserves—it is to buy themselves some time rather than using cash.

Willie Coffey: Are you one of the two thirds of councils that will be dipping into some reserves, Martin?

Martin Booth: Historically, we have used a little bit of our reserves but, taking into account our reserves balance, that will be more challenging this year, because of the cost of living and inflationary pressures.

Willie Coffey: Kirsty, do you want to come in on that?

Kirsty Flanagan: Similarly to what Martin Booth said, I would not advocate the use of reserves for revenue spending, and it is not something that we do. Sometimes, there is a timing issue with the figures in the national reports. Certainly, for Covid, we got quite a lot of money late in the financial year for things in the following year. Although that might look as though we are drawing on reserves, it is for a particular purpose. I am not planning to use reserves. We build up the majority of our reserves to support our capital programme and commitments of that nature, rather than use reserves for recurring revenue expenditure, and we have no plans to do that in 2023-24, either.

Willie Coffey: Robert, what is the picture in Dundee in relation to reserves?

Robert Emmott: The council has not decided what it is doing for next year yet, but we are in a very similar position to that outlined by Kirsty and Martin. However, I will add that we will look to use our Covid reserves for areas where we still have not recovered from the impact of Covid on business as usual. Leisure trusts and car parking are two areas where income has not recovered. We recognised that the reserves that we set aside would be needed over a period of time while those areas build back up, and the extent to which those services will recover from Covid remains to be seen.

Increasingly, we face significant risks around inflation and cost pressures in-year that, over a long period of relatively low inflation, did not exist. When we are talking about an increase of £3 million or £4 million in energy costs in a year, it makes you think about whether 2 per cent, which is a little over £8 million, is sufficient for the year. It is important to maintain sufficient reserves to have resilience and not to impact on services in the short term.

I will add an indirectly related point. We are using money from this year to help with energy costs for next year. We are very keen to protect services—I am sure that all councils are—so we are looking to ensure that we do not cut services as a result of temporary issues. As Martin Booth described, we sometimes use balances to smooth the impact of something so that we provide the best services that we can and manage change effectively.

Willie Coffey: I would like your perspective on whether the funding formula is correct and appropriate or whether it needs to be adjusted. There is a huge amount of debate about that. We have figures that show that Aberdeen City Council and City of Edinburgh Council get the smallest settlements per head in Scotland. However, if we look at the real-terms changes to the revenue allocations, we see that Aberdeen council is at the top at 7.2 per cent. I think that the Scottish average is 3 per cent.

There is a whole set of variables in the funding formula. What is your perspective on it? Are you content with it? I suppose that the answer will be no, but does the formula need to be adjusted and is it a fair way to allocate resource to Scotland's councils?

Martin Booth: The first thing that we would say is that we would not like to comment on any individual council. We are representing all 32 councils as best we can, and there are differences. The argument is that a number of things influence the costs of providing council services, and one of those is clearly population and the demographics of that population. The others are to do with rurality—the supersparsity issue that, for example, it costs more to collect a bin that is two miles away from the next bin than it does to collect a bin that is next door—and deprivation. There will be a number of other factors, but those are the headline ones. Providing services to rural and deprived communities influences that demographic or population allocation.

We have a system in place. I do not think that anyone would claim that the system is perfect but, at this precise moment in time, it is probably the best that we have got. Making changes to it in a time of austerity and increasing costs would potentially be devastating to some of our local authorities. Although all the local authorities are on a knife edge as regards financial sustainability, changing the funding formula when we are in that position would be impossible for some authorities.

In an ideal world, we would start to change the funding formula when we had a growing pot of money so that, in reality, the local authorities that you could argue are overfunded—I would be very cautious about saying that—would have lower increases and those where the population was growing or where circumstances were changing would have a bigger increase. That is how to do it, but it has been a long time since we have been in such a position. I am old enough to remember when there were growth options in our budget every year, but most of my colleagues do not remember that.

Willie Coffey: I can remember it, Martin. Thank you for that perspective. Kirsty, do you have anything to add?

Kirsty Flanagan: I have nothing to add to what Martin said. I fully agree.

Willie Coffey: Are you happy with the funding formula that is in place?

Kirsty Flanagan: As Martin says, the formula is not perfect, but it is the best that we have at the moment and, until the quantum moves in an upwards direction, I do not think that we could revisit the formula.

Willie Coffey: Robert, what is Dundee's perspective on the funding formula? Is it right? Does it need to be adjusted?

Robert Emmott: It is imperfect and very complex. It is important to remember that local government delivers a range of services, and in different ways, to suit historical decisions and more recent policy decisions that suit local authorities' local circumstances, so the formula will always be complicated.

I think that most directors of finance would say that stability is really important, and the floor mechanism in the distribution that provides stability over the piece means that there are no sudden shifts, which could have devastating effects on individual services. If you look at where the biggest elements of the floor are and the impact of removing those from some councils, we see that it would be devastating to just change the picture. Planning would be needed and, as Kirsty Flanagan alluded to, the floor would eventually grow out if the budget was growing. However, it is not, and that is a challenge for us.

I submit that, at present, we should not look at the distribution; we should look at the fiscal flexibility that we have to try to grow the resource to support what we are trying to do in local government. That would be a better use of our time at the moment. However, I think that it is fair to say that not every director of finance would necessarily agree.

Willie Coffey: Thanks very much for that, everybody.

Paul McLennan: Robert Emmott has set me up for my question, which is about the revenue-raising options that are open to councils. You might all have heard the previous panel session, in which I asked about the short term and the longer term. Carol Calder mentioned general competence in relation to councils being able to raise funds. What options are available to councils now? What is preventing you from doing that?

On the medium term, in the discussion with the previous panel, it was mentioned that most local authorities in Europe have the ability to raise about 50 per cent of their income. In Scotland, the figure is about 15 per cent. Again, in the short term, what would you like to see and what is preventing it from happening? In the medium to longer term, what other powers could local authorities look at? I am not proposing these options, but the options that are used in other countries include a local sales tax, roof taxes and taxes on visits to hotels—all that kind of stuff. Can you comment on that?

I will come to Robert Emmott first, as he mentioned fiscal flexibility.

Robert Emmott: On fees and charges that councils could levy, I would like to draw attention to two aspects. One is that there is a natural limit, particularly during a cost of living crisis, to what we can charge for the delivery of services. We have been having discussions about what we can charge for car parking, what income we can raise, and the demand and where the price point should be. At the moment, there is probably a limited ability to raise prices and have people respond and pay those higher prices to generate significant income.

Councils would like to have control over planning fees and other areas for which people pay for services that we provide. That would allow us to make our own decisions about what levies we charge, so that they reflect the costs. The demand for services and the types of services that are delivered vary across the country.

11:15

Council tax is another subject that I could get into. The system is not perfect, but it is well understood by the public as a tax-raising system. Most councils use the flexibilities in the council tax system, such as those relating to empty homes and second homes. I submit that there are areas where councils could have more flexibility to look at additional charges for empty homes, particularly given the significant shortage of housing and the fact that houses are sitting empty. It is important that we have more levers to help us with that type of thing. There is a real challenge with valuing the base for council tax. There is a quick win in the system in terms of revaluing a house if it is extended, enlarged or improved to an extent that would put it into a different council tax band.

Lastly, I will touch on rates. In my view, having different poundage rates across Scotland would risk creating competition, which is not necessary. Rates can be a huge driver of economic activity. One thing that we are grappling with is how to keep city centres, shopping precincts and the retail sector alive and provide them with the maximum support, and rates are hugely powerful in that regard. We welcome the devolution of unoccupied property relief, but I contend that if local government has the devolved powers to do its thing, decisions about that should sit at the most appropriate local level, so that local authorities can influence what happens in their areas. That all supports economic growth.

To go back to my point about poundage, we do not want competition. I do not want to be competing with nearby councils on economic growth; I want to work collaboratively.

Paul McLennan: I will go to Martin Booth. If you have any thoughts on the medium to long-term view, please add them.

Martin Booth: I will add to Robert Emmott's points on fees and charges. First, in lots of cases—I would exclude the example that Robert gave about planning—we are the provider of last resort. We are providing services not to wealthier individuals but to some of the poorest and most vulnerable people in our society, which severely restricts our ability to raise charges.

Some of the things that are being talked about, such as workplace parking levies and visitor levies, are not game changers that will fundamentally change the position for councils. Some councils will gain nothing from a visitor levy, because they do not have a big tourist population, whereas it will be a significant help for other local authorities. For example, Glasgow gets about 3 million visitors, so £2 per night per visitor might work out to £6 million being raised by a visitor levy, but that is in the context of a £1.8 billion net budget. Therefore, a visitor levy will be helpful, but it is at the level of roundings.

Looking towards the medium term, for a local democratic organisation to raise only about 12 per cent of its net budget from council tax—as is the case for Glasgow—does not tie in with local accountability. There has to be a fundamental review of the base of those revenue-raising powers. Looking at the wider initiatives must be part of the medium-term discussion, which might involve looking at local income tax and local sales tax, as well as other measures that are used in different places round the world.

Paul McLennan: With your CIPFA hat on, is that something that the organisation has discussed, or that you as directors of finance have discussed?

Martin Booth: Robert Emmott is our representative for the work that is being done on the fiscal framework, so he would lead on that. We have been discussing that over a number of years, but it has not progressed. Changing council tax has probably been higher up the agenda but, again, the issue is how we could change that when it would fundamentally change the funding position.

Paul McLennan: I will bring Robert Emmott back in at the end to see whether he has any more comments on that.

Kirsty, do you have anything to add?

Kirsty Flanagan: Martin Booth mentioned the visitor levy. In Argyll and Bute, that would give us significant revenue. Unfortunately, there is a process to go through and a lead-in time, which is a bit on the long side, before it can be brought in—it is deemed to be an 18-month lead-in time from when a local authority acknowledges that it is going to use the levy. In Europe, similar measures have come in after six months rather than 18.

It will be interesting to see how we are restricted in spending that funding. Some of it will probably need to go towards existing resources that would otherwise have to cease because of funding cuts. It is to be used for additionality for tourism.

Paul McLennan: The wellbeing legislation wraps around how that is raised and apportioned.

Kirsty Flanagan: Yes, but we need to see what additionality means, because we might want to continue to provide some services that we cannot, and therefore they should be deemed as additional. That levy would bring in significant revenue for us in Argyll and Bute, should members choose to adopt it.

Paul McLennan: I go back to the point that Robert Emmott made about fiscal discussions going on in the medium and long term. Have there been discussions about things that could be done in the medium to long term, such as a local sales tax?

Robert Emmott: Yes. We have not talked about a local sales tax, but we have talked about what other measures could come in and what the process would be for bringing in measures. Kirsty Flanagan made a very good point about the timeframe for bringing in measures. A visitor tax is a good one, because there are costs associated with visitors and the income from the tax is likely to coincide with the costs of managing and looking after visitors in rural areas.

We need a process that is fleet of foot, and we have discussed how to produce a process that works. We have also discussed how to ensure that we produce a process that does not cut across other initiatives and policies. For example, if we are trying to encourage visitors, what would introducing a visitor tax mean and what would be the wider economic benefits? There is a focus on making sure that there are no unintended consequences.

The things that we are thinking about in particular are what we can do with council tax, rates or other levies that can be raised, and who we can raise them on. To be honest, there are not a huge number of ideas, so I am interested in any ideas that people have.

We also need to weigh up the burden of bureaucracy and the cost of administering a tax versus what we will raise and how it will be managed. One challenge with the visitor tax is how it would be levied and collected and the cost of administering it. One advantage of council tax is that it is collectable and we know where everyone is.

Paul McLennan: The answer to my second question was wrapped up in that. Thank you.

Miles Briggs: I was interested in Paul McLennan's questions on flexibilities that have been called for in the fiscal framework. How do witnesses see funding roles and agreements between local government and central Government around that changing to provide that flexibility? Kirsty Flanagan touched earlier on the fact that, although Government says that you have the right to decide your local priorities and the spend that will be allocated to them, it is clear that that is not the case in relation to policy commitments that you have to deliver.

Kirsty Flanagan: Possibly, we need a joint conversation on delivering the outcomes. There is quite a lot of focus on inputs rather than on what we can deliver jointly. That is one area where we could work together. Robert Emmott—or someone on the first panel—said that a lot of what the Scottish Government and local government are trying to do is quite similar, so if we could get together and not have a focus on inputs, that would be helpful.

Martin Booth: Just to expand on that, Robert Emmott mentioned classroom assistants. Everybody agrees that we want our children to do as well as they possibly can, and a lot of authorities have worked to improve attainment by introducing classroom assistants to spread the burden of teaching and allow teachers to teach in different ways. Imposing limits on the number of teachers might take away that flexibility and take us down a very specific route. The number of teachers is an input; it is not an outcome. The Scottish Government's commitment should be on strategic objectives and outcomes, and not on inputs.

Miles Briggs: Thanks. Robert, do you want to come in on that, as you are leading on it?

Robert Emmott: This comes back to having a transparent dialogue, which is one of the things that we are trying to introduce through the work on the fiscal framework. We are looking to produce data for the Government to look at earlier in the year when it is starting to develop plans, so that it can consider what is happening in local government, what cost pressures we are facing and what services we are trying to deliver, so that there is a transparent conversation. There will always be some tension between national and local priorities and with regard to how you might choose to manage those. We need to accept that we need to work together in an open way.

I want to emphasise what Kirsty Flanagan said, which is that we need to think about what we are achieving. Our discussions should be about attainment. Are we achieving the levels of attainment that we should be? Are we achieving positive destinations for the children leaving our schools? Those are the measures that we should look to be accountable for and to deliver on. How much are we growing the economy? What are we doing to grow the economy? We also need to look at how we are supporting the objectives—rather than measuring what is going in, because that would imply that there is no room for efficiency with regard to how things are done, but there is always a bit of scope to do things better and differently. It is important that we are not embedding the same way of doing things but looking at whether we can be a bit smarter in all the things that we do.

Miles Briggs: Looking back to the historic concordat, which the Government used to talk about, is there a model that we have already tried—it has been about freezing council tax previously, rather than about councils raising more income—that could be picked up and which councils have previously signed up to that would work to provide the flexibility at local level that everyone is telling us they want, but which also includes national accountability around outcomes?

Martin Booth: I should probably hold my hands up and say that I actually wrote the concordat, along with a civil servant, when I worked at COSLA 15 or 16 years ago. To my mind, one of the key things in the concordat was a reduction in ring fencing. Legal ring fencing has reduced since then. There was a significant move to do that at the time, but it has been replaced with direction.

The other big thing was that there would be a view to protecting and increasing the local government share of the Scottish Government budget. That clearly has not happened. That is because there has been a significant increase in health spend in that time. I do not think that any of us is suggesting that there should not have been, but perhaps the focus has again been too much on inputs and not enough on outputs, and the focus should be on health and wellbeing rather than just the national health service. Health is a much wider thing. Some of the sentiments of the concordat were very positive, but we have probably lost sight of them over the years.

The Convener: We will move to questions from Annie Wells, who is online. Annie, are you there?

Annie Wells: I am, convener. Good morning. My question is for each of the witnesses. What progress has been made in your local authorities towards more use of participatory budgeting? How can more budget and service decisions be further devolved to local areas?

Kirsty Flanagan: I can kick off on that. There has probably been limited use of participatory budgeting—in the sense of the historical definition. We did it for our third sector grants, which is a small element of our budget, but it was proved that the administrative burden of doing that meant that it was not really cost-effective. Participatory budgeting works fairly well if you have a distinct pot of money, but with reducing resources, many councils do not have a distinct pot of money that they can put aside to do real participatory budgeting.

We are looking at whether we can involve our communities more in localisation of services, but what we have actually managed to do on participatory budgeting to date is limited.

Martin Booth: I echo Kirsty Flanagan's comments that it is a really difficult thing to do. We did a number of participatory budgeting pilot schemes to really test how we would engage and how much support we needed to give to communities, in some circumstances, for them to be able to engage.

11:30

We run the Glasgow communities fund, which is for our grants to the third and voluntary sectors. Although it is not a massive percentage of the council's budget, it is a fairly sizeable amount of money. We have developed that process at each three-year cycle to be more engaged and more participative. However, the demand is way beyond what we can afford, which also brings challenges.

The real issue around full participatory budgeting, which involves exactly how we are going to deliver services, is that it is really difficult to do at a time when we are making cuts. I feel sorry for our elected members who were all elected to represent their local communities to do good and to make their communities better and who are now overseeing a series of cuts. That is not what they came into elected politics for. The same argument applies to our local communities, in that asking people where they want to make cuts is quite a difficult thing to do.

We have to balance the budgets. In a period of growth when we are expanding services, that becomes a much easier task; when we are making cuts, it feels very challenging.

We run a public consultation as part of our budget process in Glasgow. We use Ipsos to randomly select participants so that they reflect the city in relation to all the different factors. For the past couple of years, the consultations have been done online. Thankfully, we were back to doing most of them in person this year, so it was far more engaging. However, again, we are asking people what they want to protect, which is a difficult ask—it is not about asking them where they would like investment.

We can make progress, but we need to get the quantum sorted first.

Robert Emmott: We have some good examples such as the piece of work that we are doing around climate change participatory budgeting at the moment. However, it is labour intensive. Part of that is about ensuring that we reach out to everyone that we need to reach out to and that groups are not excluded from the work that is going on. That work is largely in relation to areas where we have discretionary spend, and my concern is that discretionary spend will reduce if we are under more financial pressure in future years.

There is also a tension in that we have local elected members who are familiar with their communities and know what the issues are. They will tell you that people come to them about issues relating to, for example, potholes, bins and dog waste. As Martin Booth said, if we have a discussion where we ask people, "Would you rather have your grass cut, your potholes filled or a teacher in a school?", there is an issue about who is making that decision and where that sits in relation to national policy. All those conversations need to be transparent, because we need to ensure that we are responding to community needs. My concern is that, if resources become scarce or we focus them on different priorities, we will pull resources out of areas that are really important to communities. That is where the voice of local elected members is really important, as they are on the ground and—as those of you who have been councillors will know—they are aware of the issues that come forward all the time. That is a challenge that we need to work out.

I also note that Covid has made us take a step back. All that consultative engagement stuff is much easier to do in person than online.

Annie Wells: I have one final question. Given that councils have the flexibility to increase council tax in 2023-24, what processes and assessments do they go through to make sure that the increases are proportionate and fair to households across their local authority areas?

Kirsty Flanagan: That is quite a difficult question for me to answer, because the setting of council tax is very much a members' decision, and should be the balancing entry to help to balance the budget. However, in the current cost of living crisis, members are mindful of the challenges that individuals face in making ends meet. Members have to consider how much people can afford against how much we really need to raise.

Martin Booth mentioned earlier that the council tax figure for his council is around 12 per cent of the overall budget. We are a bit higher than that in Argyll and Bute. Balancing the budget against the challenges that we are facing would mean having to raise council tax by a significant amount, which would be unpalatable for local members and the general public. It is a difficult one for me to answer.

Annie Wells: I completely understand.

Martin Booth: Our elected members are very aware of the cost of living crisis and the impact that it is having on local communities. They are cognisant of the need for constraint, but they are also cognisant of the need to balance the budget and therefore to potentially have council tax increases. It is a political decision.

From an equity point of view, we could argue about how fair council tax is and how much the value of a person’s property reflects their wealth. For some people, it is probably a good measure; however, we know that it is not a good measure for certain members of our society. We could all give examples of people who live in big houses but who have low income. Council tax reduction helps for the most extreme cases, but I do not think that it makes it a truly fair tax.

Robert Emmott: When we put the information to members to make that decision, we provide them with the context in which they are making it. For example, they look at the cost of living rise, feedback from the budget consultation and what the public have to say, and the other measures that they are putting in the budget that might alleviate cost of living pressures.

I cannot speak for next year. However, last year, for example, we allocated additional money to help with fuel poverty and food supply in the local community. The council tax decision is not taken in isolation from the other decisions that are made as part of the budget that we set.

Annie Wells: Thank you.

Mark Griffin: I will ask an academic question. Directors of finance have been clear about the gap in the budget in relation to the demands that they are facing and what central Government is providing. What figure can you put on what you would need to increase council tax by in each of your authorities in order to make up that shortfall?

Martin Booth: Kirsty Flanagan covered that slightly in her last answer in that the figure by which we would need to put up council tax in order to close the gap would simply be unaffordable.

I can quote figures from Glasgow because they are in the public domain and have been seen by council committees. My first financial forecast had a gap of £120 million, driven predominantly by inflationary increases through pay and utilities, including pay for this and next year, and based on assumptions about what the pay increase will be.

One per cent of council tax, net of council tax reduction, is about £2.4 million. That is a 50 per cent increase in council tax. Since then, I have done an updated forecast that took the figure down to £70 million. That sounds like a massive increase, but that was following the direction that social work had to get flat cash. We do not give them any of their pressures but we do not take any saving. It was £70 million from 70 per cent of the council as opposed to from 100 per cent of the council. However, again, £70 million and £2.4 million are not achievable figures.

Council tax is one of the tools in the box as part of the budget-balancing exercise. We also need to make significant cuts as well, even after 10 years of cuts. There are some efficiencies in there, but a significant element of it is cuts, so there are reductions in services. It would not be possible to balance that with council tax.

Mark Griffin: I know that it would never be imposed, which is why I said that the question was academic, but I am still interested to know what the increase would need to be to cover it.

Martin Booth: If we did not make any savings and included social work in Glasgow, it would be 50 per cent.

Kirsty Flanagan: That gave me time to do the calculations for Argyll and Bute Council. As Robert Emmott and Martin Booth said, council tax is one of the tools in the toolbox. We would never look at it in isolation. Our gap is approximately £12 million and every 1 per cent of council tax raises approximately £0.5 million. We would have to raise council tax by 22 to 24 per cent in isolation, and that is not something that we would consider.

Robert Emmott: On the same basis, in January we had a budget gap of £14.3 million and—in an academic sense—we would have to put up council tax by 23 per cent. Obviously, we are looking at how else we might bridge that gap because that is clearly not a tenable position to be in.

The Convener: I am going to ask what might be the final question. During the earlier panel, I was talking to Bill Moyes about his statement about the need for councils to focus more on service reform to find the safe path through difficult times ahead. I am interested to know what you think when you hear about reform. I asked for specifics earlier but perhaps you have some thoughts about that that will help me to understand what he was getting at. Martin Booth has been nodding his head.

Martin Booth: Yes, we heard that question and we reacted to it. It is inaccurate and unfair to say that there has not been any reform in local government. There have been some big headline changes, such as the creation of the health and social care partnerships, which was a reform to deliver services better and to work much more closely with our colleagues from health. We have all seen significant channel shift in how we deliver services. No longer do people queue up to pay their rent or their council tax in a cash office. We have moved things online and we have changed how we deliver services.

I will give you a couple of examples of how services have evolved over time. We have gone for evolution rather than revolution. We used to have single steel bins that refuse collectors would lift and empty into the back of a refuse collection vehicle. That moved to wheeled bins, which were much better from an environmental point of view because they captured things better. We now have multiple wheeled bins and other types of container so that we reduce landfill and collect different types of recyclate. That is a continuing effort. In Glasgow, we have four bins at the moment, but a paper at our city administration committee just last week proposed the introduction of a fifth bin to further refine our recyclate and make it more recyclable.

Likewise, libraries used to give out books and that was all that they did. Now, if you go into a library, you can access the internet and get training on information technology and other things. We provide employment support advice in libraries. We also provide benefits advice, particularly with the roll-out of universal credit—libraries had a key role to play in that. Our improving the cancer journey service and other long-term conditions support service are all delivered through libraries, and they still give out books. That service has massively transformed during the past 20 years. Libraries now provide a completely different service, but they still do books.

The Convener: It is great to hear that they still do books but that there is also the idea of stacking functions in a building and a space that is open to the public.

Kirsty Flanagan: Martin Booth has given some examples of reforms but we have to remember that reform does not necessarily generate a saving. Some reforms come at a cost. At the moment, Argyll and Bute Council is facing the introduction of the biodegradable municipal waste ban in 2025. There is significant pressure for us to deliver that. It is service reform from the Scottish Government's perspective but it will come at a significant capital and revenue cost for Argyll and Bute Council.

There is also the proposition that smaller vehicles will no longer be petrol or diesel from 2025. Last week, a paper came across my desk that showed that the replacement of all the council's small vehicles would cost £9.5 million. To put that into context, that is the level of our capital grant for one year. If we were to replace all of our fleet, we would have to use all our capital grant for one year, which means we would not be doing any capital works on any of our schools or other buildings.

We have done lots of reform but I wanted to say a word of caution that some reform will come with additional cost.

11:45

The Convener: Robert Emmott, what about in Dundee?

Robert Emmott: We have already gone through a significant reform programme. Once front-line services are running efficiently, there is not a huge amount to do except to do fewer of them. If we think about waste collection and the people who collect the waste, or the people who provide direct care services or teach in schools, there is always more that we can do. We can always go a bit further. There are still some collaborative approaches that we could take but they are not significant in terms of the core front-line delivery that we are providing.

One of the things that we have not talked about today is capital. Roads is a key issue for many citizens, but what we are spending on roads is not going up, which means that the long-term condition of our roads is not going to improve. Capital is not going to go up either. We are considering building a new school at the moment and the impact of inflation on the back of Covid, Brexit and the war in Ukraine is significant in terms of the cost of delivering capital infrastructure. That is an area where we are going to be under increasing pressure in the future just because of the cost of doing things and the scarcity of resources in the system to actually do things.

Some of the reforms have been about standing still in terms of doing the same amount for the same resources. For example, the work that we have done with Tayside Contracts around uniform approaches to road-related work across Tayside has moved us on to a certain extent but it will deliver only so many efficiencies and then it is a question of how much money we have got and how many road repairs, for example, we can do with the resources that are available to us.

There are still challenges in local government, and we have been successful in addressing some of them in recent years. My colleagues and I will continue to ask how we can get the best value for the public sector as we go forward into the next year.

The Convener: Thank you for that, and thank you for bringing in the point about capital.

I said that that was the final question, but I invite anyone to come in with anything that we might not have covered and which we need to hear about.

Kirsty Flanagan: Robert Emmott's point about capital was well made. We are seeing significant challenges in the cost of providing capital projects and the capital grant figure is not going up. On the back of Covid, trying to put more money into communities to boost the economy is really challenging. I know that some councils are having to cut back on some of their capital projects to meet the demands of inflation. In some areas, we are seeing a 30 per cent or more increase in construction costs for capital projects, which is a real challenge for councils.

The Convener: Thank you all for coming and bringing your evidence for us today. I will now suspend the meeting while our witnesses leave the room.

11:48

Meeting suspended.

11:51

On resuming—

Subordinate Legislation

Valuation (Proposals Procedure) (Scotland) Regulations 2022 (SSI 2022/369)

The Convener: The final public item on our agenda is to consider a negative instrument. Do members have any comments on the instrument?

There are no comments. Is the committee agreed that we do not wish to make any recommendations in relation to the instrument?

Members *indicated agreement.*

The Convener: We agreed at the start of the meeting to take the next two items in private. I now close the public part of the meeting.

11:52

Meeting continued in private until 12:21.

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