



OFFICIAL REPORT
AITHISG OIFIGEIL

Local Government, Housing and Planning Committee

Tuesday 16 January 2024

Session 6



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LOCAL GOVERNMENT, HOUSING AND PLANNING COMMITTEE **2nd Meeting 2024, Session 6**

CONVENER

*Ariane Burgess (Highlands and Islands) (Green)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*Miles Briggs (Lothian) (Con)

*Stephanie Callaghan (Uddingston and Bellshill) (SNP)

*Pam Gosal (West Scotland) (Con)

*Mark Griffin (Central Scotland) (Lab)

*Marie McNair (Clydebank and Milngavie) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Joe FitzPatrick (Minister for Local Government Empowerment and Planning)

Councillor Katie Hagmann (Convention of Scottish Local Authorities)

Mirren Kelly (Convention of Scottish Local Authorities)

David Robertson (Society of Local Authority Chief Executives and Senior Managers and Scottish Borders Council)

Ian Storrie (Scottish Government)

CLERK TO THE COMMITTEE

Euan Donald

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Local Government, Housing and Planning Committee

Tuesday 16 January 2024

[The Convener opened the meeting at 09:04]

Decision on Taking Business in Private

The Convener (Ariane Burgess): Good morning, and welcome to the second meeting in 2024 of the Local Government, Housing and Planning Committee. I remind all members and witnesses to ensure that their devices are on silent.

The first item on our agenda is to decide whether to take items 3 and 4 in private. Do members agree to do so?

Members indicated agreement.

Budget Scrutiny 2024-25

09:04

The Convener: Under agenda item 2, the committee will take evidence from two panels of witnesses on the Scottish Government's 2024-25 budget. For our first panel, we are joined online by Councillor Katie Hagmann, resources spokesperson for the Convention of Scottish Local Authorities, and we are joined in the room by Mirren Kelly, chief officer for local government finance at COSLA; and David Robertson, finance lead at the Society of Local Authority Chief Executives and Senior Managers and chief executive of Scottish Borders Council. I welcome our witnesses to the meeting.

We will try to direct our questions to a specific witness where possible, but if you would like to come in, please indicate as much to the clerks. Councillor Hagmann, as you are participating virtually, you can do that by typing R in the chat function.

I will direct my first question to Councillor Hagmann initially. The Deputy First Minister told the Parliament that the 2024-25 revenue settlement represents a 5 per cent real-terms increase on last year's budget. However, COSLA has stated that the settlement is actually a £62.7 million reduction over the year. The committee is interested in understanding how COSLA arrived at that figure and why it appears to be so different from the Scottish Government's interpretation. At a meeting last year, we heard from the directors of finance that the provisional 2024-25 budget allocation should be compared against the final budget figures for 2023-24.

Councillor Katie Hagmann (Convention of Scottish Local Authorities): I appreciate being able to join the committee online this morning, and I apologise for not being there in person.

There is absolutely a discrepancy in the figures that are being discussed. I appreciate that the Deputy First Minister and the Scottish Parliament information centre report have indicated an increase but, as you have quite rightly pointed out, the directors of finance have pointed out that the comparisons are not exactly even.

Back at the beginning of December, when COSLA launched our budget lobbying campaign, we made it very clear that, in order to stand still, we needed an increase in our budget to around £14.4 billion, and it was stated that that included last year's revenue settlement plus the policy commitments. My understanding is that those policy commitments have not necessarily been captured throughout the year. That might be partly because we are not yet at the end of the financial

year, so that might not be possible, but there is certainly a discrepancy there.

COSLA leaders met on 21 December. At that point, our “#Budgetreality” document was published. If members of the committee have not seen or had access to that document, we can certainly provide it following the meeting. It clearly shows where there is a shortfall in our revenue budget and—this is important—a significant shortfall in our capital.

Mirren Kelly, who is my chief financial officer, is with me, as is David Robertson. They might wish to come in on the technical details.

Mirren Kelly (Convention of Scottish Local Authorities): It is always complicated. Our “#Budgetreality” document tries to set out how we got to that figure. The Deputy First Minister made a comparison in Parliament between the Scottish budget as published last year and this budget as published. As Councillor Hagmann has mentioned, things have been added in year, and commitments that are already known for next year are included, making the figure appear to be an increase. Significantly, over the 2023-24 financial year, substantial additional allocations have been made to local government to support a pay award. That is part of the total.

On our point about a real-terms cut, we have received £62.7 million less in revenue than we expected before inflation is taken into account. That is set out in the first table in the budget reality document that we published on 21 December and which also sets out what we were expecting for pay and for baselining. The fact that funding has been baselined this year adds another complication. We have set out what we expected to receive just as flat cash before anything has been taken into account, and the revenue total is £62.7 million short.

The Convener: Okay. David Robertson, do you have anything to add?

David Robertson (Society of Local Authority Chief Executives and Senior Managers and Scottish Borders Council): The funding has increased for local government, but so have the commitments. That is the key issue: what we are being asked to do with the money, based on Government policy and distribution of funding, has also increased. What we are being asked to do with the money that we have goes beyond a cash settlement plus inflation, if we are fund those policy commitments. That is how we have ended up with local government looking at a funding reduction of almost £63 million.

The Convener: Thanks for that.

I will now take a longer-term view. In November, the Scottish Government informed the committee that

“local government revenue funding is 2.6 per cent higher in real terms than it was in 2013-14—as confirmed in the recent Accounts Commission report.”

Around the same time, COSLA wrote to the Parliament’s Economy and Fair Work Committee to say:

“Over the past decade, Local Government has experienced significant cuts to funding. A 9.6% reduction in revenue funding from 2013/14 to 2020/21 was followed by further real terms reductions in 2022/23 and 2023/24.”

I am interested to hear how you account for the differences in interpretation.

Mirren Kelly: I am happy to pick up that question. I believe that that relates to work that was done by Audit Scotland in a particular council, which looked at exactly the issue that David Robertson mentioned. It was all about looking at where, compared with the real-terms position, additional money was allocated for the purpose of funding a specific policy and, as a result, was committed funding, not additional funding that could be used to support everything else.

The Convener: David, do you want to come in?

David Robertson: No, I think that that covers it.

The Convener: That is great. Obviously, as a committee, we are trying to understand the situation. We have had considerable discussion about the fact that there are various “versions of the reality”, as it was described by the director of finance for Argyll and Bute Council at last week’s committee meeting. It is difficult for the committee to scrutinise the Government’s budget with those different versions, and it is challenging for councils to make budget decisions. I am interested to understand why there is such disagreement over the budget figures each year, despite the commitment from COSLA and the Scottish Government to working together.

Councillor Hagmann: I can come in on that question. There is absolutely a commitment for us to work together. Last year was my first time in this position, going through the budget process. The fact that the Scottish Government and local government often describe different realities does not help anyone, least of all our communities, who then have a lack of trust. Whom do they believe?

That was one of the main reasons for and one of the huge drivers in taking forward the Verity house agreement. In that agreement, there was—as there is still—the ambition to work towards a fiscal framework, but it is fair to say that we are quite a distance away from completing that work, and the fact that we are in the same position this year is disappointing. It is also fair to say that we

are less than a year into that partnership working, and it takes time for that to bed in. However, we absolutely must have a renewed commitment to accelerating that work.

There were a few meetings in the diary earlier in the process, but to say that there had been significant discussions and a no-surprises budget would be unfair, because that work has not yet been completed. However, it is important that we continue on the journey. We are using different sets of figures because, as has been said many times, the figures that Scottish Government has published do not include the in-year costs that have come about in local government, least of all pay, which, I imagine, will be a significant issue in the year ahead, too.

It is a challenge. Nobody is underestimating the financial challenges that the Scottish Government is facing—we understand them. Indeed, they make it even more important and even more of an imperative to press ahead so that we can work collaboratively.

The Convener: Do you have anything to add, David?

09:15

David Robertson: We just need to get to a point where everybody is comparing apples with apples when we look at these things. COSLA and local government will compare the settlement with the previous settlement; as a result, you are looking at the movement at a fixed point in time, and then any in-year commitments based on new policies have to be added to the position in order to arrive at an assessment of whether the settlement is a flat-cash one or whether it has been increased or decreased.

The Convener: That is great—thanks very much for that. I call Pam Gosal.

Pam Gosal (West Scotland) (Con): Good morning, panel. My question is about ring fencing. The director of finance at East Lothian Council told us how around three quarters of its budget had been wrapped up in directed spend, and it still had all of its policy commitments to deal with. Such an approach did not really provide any flexibility, despite some formerly ring-fenced budgets being baselined. To what extent is the budget un-ring-fenced, and what is COSLA's role in that process?

Councillor Hagmann, you mentioned the policy commitments, so I will start with you.

Councillor Hagmann: A significant amount of our funding still goes towards directed spend. Huge portions of our budget—around 75 per cent—go towards education and staff pay. As well as education, obviously, there are our

commitments to our integration joint boards. No one will argue against the importance of them.

As I have said, the fiscal framework continues that work. My chief officer, Mirren Kelly, has been working closely in that sphere with Scottish Government officials, and that work is continuing. Mirren might want to come in on some of the details of that.

Certainly, though, COSLA leaders have reaffirmed their commitment to the Verity house agreement. Nobody is walking away from that new partnership way of working. That said, there is disappointment among all the leaders that, at this stage, the settlement as published does not give us what we require to deliver fully the services that we want to deliver within and across all our communities.

I will pass over to Mirren to talk about the specifics.

Mirren Kelly: I can give you two examples to illustrate our point. Part of the funding that was baselined—the £522 million for the 1,140 hours commitment for early learning and child care—is no longer formally ring fenced, but we are still delivering on it. There is no suggestion that that 1,140 hours is being cut. Therefore, it is still directed spend, and the flexibility to do anything else is extremely limited, as that commitment still has to be met.

Another example is the baselining of the £333.5 million that has been supporting the real living wage for adult social care staff. There is an additional £230 million this year to get to £12 an hour; however, you cannot just stop paying the previous £10.90 per hour if you are going to pay £12, so again that is still directed spend—that is, it is being directed at a specific purpose—and there is no flexibility to change it.

Those are just two examples to illustrate what we mean in that respect.

Pam Gosal: Thanks, Mirren. Do you have anything to add, David?

David Robertson: I can highlight a couple of examples. First, the vast majority of local authority expenditure goes on two areas: education and social work. The biggest cost in the education budget is teachers' pay. Of a total of around £13.9 billion in the local government settlement, £3.2 billion is directed at that. Effectively, we can do little with that, given that we cannot vary the number of teachers—54,000—that we employ across Scotland. Essentially, that huge element of the education budget is directed towards that spend.

Another place where there is a high level of direction is integration joint boards. Every year, councils are told that they cannot reduce the

amount of money that is put into integration joint boards; in fact, they are normally expected to increase it. That direction comes out of the overall pot, which reduces the flexibility to invest in other services. Direct policy choices are being made by Government for the local government settlement, which reduces our flexibility to deliver the other important services that we provide to communities.

Pam Gosal: I will go back to something that Katie Hagmann was saying about the fiscal framework. The Verity house agreement stated that a fiscal framework would be concluded by the end of September 2023. Obviously, that has not happened. Four weeks ago, the Deputy First Minister said:

"Already many of the principles we have agreed together are being put into practice, such as improved engagement ahead of the publication of the Scottish Budget".

Would you agree with that assessment, given that COSLA was blindsided by the decision to freeze the council tax? When can we expect the framework to be completed?

Councillor Hagmann: I do not recognise that there was an agreement for the framework to be completed by September 2023. There is certainly a commitment to continue on that work and the Verity house agreement set out an aspiration for a fiscal framework—I think that that was the word used. There is a difference there.

As I have said previously, there absolutely have been challenges and COSLA was very clear that it was not consulted on the council tax freeze. COSLA leaders were very clear on the matter and they collectively made that point, directly and with one voice, to the First Minister. That action has gone against the principles of the partnership and it has put strains on it. It is a new partnership and it is being tested, but there has been engagement. We had our first meeting with all the group leaders and spokespeople and the Cabinet, led by the Deputy First Minister. That engagement has taken place, in that the first of those meetings has been held, and we agreed that they would happen twice a year. The COSLA president and vice-president have met the First Minister regularly, so that engagement is being taken forward, and I have had meetings with the Deputy First Minister to pursue the issues.

Has that been enough? Would I have liked more such engagement? Would we have wanted more information prior to the publication of the budget? Absolutely, yes. We need to improve on that. However, we are at the early stages.

There were surprises in the budget. One of the lines that we were working on was that there would be no surprises, but that has not been the case. That said, we are fully committed to the three outcomes, which are sustainable public

services, for which budget decisions are vital; tackling child poverty; and the just transition to net zero. The cut to our capital budget will have a significant effect on our work towards meeting our current and future net zero ambitions.

Mirren Kelly: It was absolutely the aspiration to have a fiscal framework for September 2023. We underestimated the complexity of the things that we genuinely needed to work through and model in relation to capacity to take that forward, both within the Scottish Government and within COSLA, but it is the aspiration to get the framework completed as soon as we can. However, many of us who are needed to work on the fiscal framework have been working on the budget. I expect that we will make significant progress over the next period.

David Robertson: I think that everyone agrees that a fiscal framework for local government is a prize worth having, and it is something that we are committed to working towards. As Mirren Kelly says, capacity is a challenge, both for local government and for the Scottish Government, in moving things forward. We are absolutely committed to working towards a system that gives us increased sustainability, greater transparency and, hopefully, more financial flexibility in what we can deliver for the people of Scotland.

Pam Gosal: Councillor Hagmann, you said that you had a positive meeting with the Scottish Government after the announcement of the council tax freeze. Having spoken to 24 local authorities, I know how they are feeling. Since that meeting, do they feel that they have much more certainty with regard to the Verity house agreement and the work on the fiscal framework?

Councillor Hagmann: As far as council leaders and COSLA are concerned, the position has not changed: not one leader welcomes the council tax freeze and what it means for our budgets. The discussion with the Cabinet gave us an opportunity to have an open dialogue in which we could raise the issues, and from that point of view, it provided a positive space. Previously, we had not had that open dialogue and it is absolutely important. Large challenges loom, and only by having that open dialogue and a really honest conversation can we move the narrative forward.

We had an opportunity to speak to the cabinet secretary on education issues and net zero ambitions, and of course we also raised the issue of the council tax freeze, how it did not sit within the Verity house agreement and how damaging it could have been. Nevertheless, we reiterated our commitment to not walking away from things. As David Robertson has said, there is a greater prize to be won here, because we can take that holistic overview and work together to make the case that it is not necessarily just teacher numbers that will

improve our young people's outcomes. If we want to take forward our net zero ambitions and reduce our emissions, local government partners will be absolutely key to that.

Stephanie Callaghan (Uddingston and Bellshill) (SNP): I thank the panel for coming along this morning.

Perhaps I can start with David Robertson, although I am happy for others to come in. You described the fiscal framework as a prize worth having; indeed, Councillor Hagmann has already touched on the three shared priorities of tackling poverty, transition to net zero and sustainable public services. My initial question is: to what extent does the 2024-25 budget enable local government to progress those shared priorities? That said, I am also quite interested in how you think that might look in future, when we have the fiscal framework. Is it realistic to have complementary policies from national and local government that focus on those priorities and which ensure that you work together on finding the best way of meeting the needs of people and communities?

David Robertson: As far as complementary policies are concerned, the fact is that local government delivers the vast majority of outcomes that the Scottish Government is seeking in public policy across Scotland. We make significant contributions to those policy objectives in education, social work, transport and a range of other issues, and we work very closely with the Scottish Government on a whole policy agenda with regard to early years, social care and a raft of issues. The answer to your question, then, is yes. Much of what the Scottish Government and local government are trying to do is entirely complementary, while local government is also ensuring that the specific needs of local communities are being met.

What is slightly more debatable is the extent to which the budget assists with that process. There are signs of increased strain on local government's financial sustainability, and that has not been helped by the reductions that we have seen in the settlement and the pressures that we are trying to manage as a result of, say, inflation. Our desire to invest in areas such as net zero is not being assisted by reductions to the capital budget and restrictions in the funding that we have available to us.

09:30

Councils, which are struggling to deliver against key priorities such as poverty and exclusion in local communities, are having to divert a bigger share of their funding towards those other areas. At the same time, the quality-of-life measures and

the assistance that we can provide to communities in a range of ways is being reduced. Therefore, I am not convinced that the settlement as it stands is necessarily assisting local government to help with those three policy priority areas, although they absolutely remain a key focus for us.

Stephanie Callaghan: I would be happy to hear from Councillor Hagmann and Mirren Kelly on that issue.

Councillor Hagmann: Do you want to go ahead, Mirren, then I will come in and capture any additional aspects?

Mirren Kelly: Okay. I agree with David Robertson. The quite stark and obvious area is net zero and the capital budgets that are available for that priority. We appreciate that the Scottish Government needed to make difficult choices in relation to its capital budget, but it would be good to have clarity on why it has chosen certain areas, given that there are shared priorities, and on what that means.

I strongly echo David Robertson's point that there is serious concern about the financial sustainability of local authorities. The direct cut to the revenue budget means that services will have to be cut to address that. The knock-on impact for our staff, communities and services that are provided will be noticeable and significant.

The Local Government Information Unit's survey, which is published just before Christmas, indicated that council directors of finance, leaders and chief executives have serious concerns about the impact on their budgets. The issue has been compounded by the rate of inflation that everyone has been affected by and has been dealing with over the past few years. Local authorities have attempted to mitigate the impact on communities as much as possible, but energy bills for all schools and care homes in the public sector have increased significantly, which has a compounding effect.

I do not think that the budget allows us to make any significant progress towards the three targets.

Stephanie Callaghan: We all understand that, as the Scottish Government is in exactly the same position with regard to energy bills for hospitals and so on.

I am interested in hearing Councillor Hagmann's response. Does a measure such as the Scottish child payment, which has lifted around 90,000 children out of poverty, have a knock-on effect on councils as well? Does that stop some families looking for additional support from councils?

Councillor Hagmann: Clearly, given your background, you will be aware that, as councillors, we are making decisions across a host of services that we provide, which are all front-line services.

It is very important that we always keep in mind and have in the background any potential unintended consequences. When we are working towards the ambitions, we are always considering new ways of ensuring that we can progress those.

I mentioned teachers. We absolutely want to be committed to closing the poverty-related attainment gap, but we also want to be lifting our families out of poverty, and the Scottish child payment is certainly doing that. I am aware that the Joseph Rowntree Foundation gave evidence to the Finance and Public Administration Committee last week that the policy is a really good one and requested that the payment be increased. I appreciate that there is not enough funding to go round to meet all aspirations, but the Scottish child payment has proved itself to be of value and it is having a fantastic impact. At the same time, across councils, we are attempting to capture people before they find themselves in difficult situations.

As it stands, the budget is challenging. One of the key aspects that was brought up repeatedly in numerous forums—such as when cabinet secretaries were hosting round-table discussions on child poverty, on which the First Minister had committed to take forward a piece of work—concerned pay, and the need for sustainable and fairly funded pay for families. Unfortunately, there is nothing in the budget as it stands that is allocated to pay.

I appreciate that our budget lobbying included a level of inflation, which would have captured the opportunity to put forward pay increases. I also absolutely accept that the budget that the Scottish Government receives from Westminster is not inflation proofed, which makes it even more difficult. Nevertheless, with regard to moving forward with pay awards, we will find ourselves in a challenging situation.

In addition, the cut to the affordable housing supply programme will have significant knock-on effects that will make it harder to achieve our shared ambitions. My colleague Councillor Maureen Chalmers will come to the committee to give evidence on that specific issue next week, so you will be able to explore that further.

It is a challenge, but we are committed to the outcomes; the question is how we navigate our way through. We have not yet had confirmation as to what the implications will be for teacher numbers—that is still uncertain and we continue to have a dialogue in that regard. We will continue to work with Government and with cabinet secretaries to find a holistic solution to the issues that we are all facing right across the country.

Marie McNair (Clydebank and Milngavie) (SNP): Good morning, panel. Before I ask my

questions, I declare an interest as a former councillor in West Dunbartonshire until May 2022.

We heard last week from four directors of finance, who described the pressures that their councils are facing. We have also had the report from the Local Government Information Unit on “The state of local government finance in Scotland”, which highlighted real concerns about the future of council finances. That position is backed up by the “Local government in Scotland: Financial bulletin 2022-23” report that the Accounts Commission published this morning.

What would COSLA like to happen between now and March, when the budget is finalised, to help public services and local government finance to become more sustainable? I put that question to Councillor Hagmann and then to Ms Kelly.

Councillor Hagmann: The simple answer is that we would like everything in our “Councils Are Key” document to be recognised and to be fully funded. We appreciate that that is not going to be possible in the current financial climate. Nevertheless, we absolutely must recognise the pressures that are being faced. The budget is currently only at stage 1; there is still a significant process to go through.

I am happy to share with the committee that I have a meeting with the Deputy First Minister on Thursday, along with the president and vice-president of COSLA. We are continuing to have a dialogue with Government and we will work closely together to ensure that information is shared properly and to make the case for why we need an increase in funding.

That being said, I am realistic. I understand that there are not endless amounts of money and that difficult and challenging decisions must be made. This is where we go back to the issue of directed spend and ring fencing. There have to be difficult conversations about which areas we may have to de-prioritise, and that has to be done in a grown-up manner, so that we do not end up with finger pointing and blame. So often in politics, we end up with a blame culture where it is somebody’s fault: it is this party’s fault, or that individual’s decision.

Of course, it comes down to individual political choices but, if we are to find a solution, we have to almost rise above that, have those really difficult conversations and work through the issues together. If we do not do that, ultimately, we will end up losing the trust of members of the public in our communities, because we will be seen to be arguing over different figures and what will work.

That is hugely challenging, and I do not think that anybody is shying away from that difficult process, but we have to find a way through—we have to find a different way of doing this. That is why the work on reinforcing the fiscal framework

must progress at pace, although that will not help us in the immediate term. However, we remain open, and I know that directors of finance meet regularly to look at how they can prioritise their asks. COSLA leaders will meet at the end of the month. We will be able to take forward more discussions as information becomes apparent and as we have a greater understanding of what the issues are that we need to get over.

Marie McNair: Thank you—I appreciate those comments. Ms Kelly, do you want to expand on that?

Mirren Kelly: Yes—ever so slightly. Councillor Hagmann outlined the key bit, which is that we need to have an honest and open conversation with the Scottish Government and the public about the difficult choices that need to be made. What do we want our public services to look like? Where do we prioritise? If there is no additional funding, where do we have to change or potentially stop what we are doing? That is the conversation that needs to be had.

At the moment, local government is looking at dealing with a £63 million direct cut before dealing with any pay or inflation issues. To illustrate the challenge that pay presents in the local government sector, I point out that a 1 per cent pay rise costs £105 million, so any pay rise costs over £100 million. It is a really big issue—it is not a small one. It is a big challenge and there will be difficult conversations, but those are the conversations that we need to have.

We also need to have honest conversations with the public. National research has been done on the public's appetite or willingness to fund public services, and authorities have done that locally. Certainly, when local authorities go out and say to people, “We could put up your council tax by 5 per cent and this is what will happen, or we could put it up by 8 per cent and this is what will happen,” generally, the response is, “Well, we quite want to keep our libraries and swimming pools and those sorts of things and if that means paying a bit more, that's what we need to consider doing.” That is the space that we need to get to collectively as a nation.

Marie McNair: Absolutely; we heard similar views last week.

The Verity house agreement commits to multiyear budget certainty where possible, but the Scottish Government budget includes only one year. Last week, we heard views from finance officers on the issue. Does COSLA believe that the Scottish Government could and should have provided indicative multiyear settlements in its budget this year? What impact does a single-year budget have on local government and third sector partners?

Mirren Kelly: As the directors of finance expressed, there can be a mixed view. Where multiyear budget settlements do not provide and are not based on certainty, that introduces additional risks. We appreciate that it can be challenging to provide such settlements, but local authorities set their own medium-term strategies, so surely more can be done, even if the Scottish Government feels that it cannot set formal multiyear budgets due to a lack of certainty.

The impact of a single-year budget on local government and the third sector is that local government is less efficient: it cannot properly plan what it intends to do and any medium-term or long-term change is difficult. There are, particularly, inefficiencies in relation to staff retention and similar issues.

A single-year budget is a big issue for the third sector, because it prevents local government from being able to provide much certainty to its third sector partners that either grants or commissioning might be able to continue. I am aware that there are local authorities that provide multiyear grants or commission multiyear services with third sector partners where they can. However, the ability to do that is limited and the local authority then takes on all the risk if the budget comes through and it turns out that there is a £63 million cut to it.

09:45

Marie McNair: I am aware of that, too. Councillor Hagmann, do you want to add anything?

Councillor Hagmann: No, not really; Mirren Kelly's answer was quite comprehensive. It comes down to workforce planning for local authorities and our third sector partners. My local authority, Dumfries and Galloway Council, has committed to commissioning services beyond a year, but doing that falls to local councils. It is absolutely vital that we look at our workforce planning without that uncertainty. However, it is accepted that the Scottish Government does not get a multiyear funding settlement and that that creates a challenge.

The Convener: That has raised a question for me. I do not necessarily expect anyone to have the answer to this, but I would like to know the root of the single-year approach. Obviously, it comes from the UK Government that the Scottish Government gets single-year funding and then there is a knock-on effect for local authorities. I wonder where that came from, historically. It is astounding that pretty much the whole of Scotland is run on a one-year budget. How can a country be run in that way? Do witnesses have any thoughts on that or understanding of it?

David Robertson: It emerges from cash budgeting at a central Government level and the annualisation of the UK's and subsequently the Scottish Government's budget. We previously had a scenario in which we received indicative multiyear settlements and that was hugely helpful for planning long-term transformational change, which is absolutely key. The bottom line is that councils spending four or five months of the year putting together a budget is inherently inefficient, and it would be better if we could get more certainty in terms of our financial planning. Recognising that things may change would be hugely helpful to us.

The Convener: Katie, do you want to come in on that?

Councillor Hagmann: No, David Robertson covered it. I could make all sorts of comments about the political nature of that issue, but I will not at this point. Ultimately, we want to be working in the most efficient way and this is not the most efficient way.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning to everyone on the panel. I will focus on the council tax freeze and I put my question to you, Councillor Hagmann. As you know, the offer on the table is £144 million, and we think that that represents what would be about a 5 per cent council tax increase. Everybody says that that is not enough, but what is enough? Has COSLA got a settled view on what the figure should be? The minister will be joining us in a wee while for part two of the committee session, so unless you have directly told him what is enough, what do you say to the committee about COSLA's view on that?

Councillor Hagmann: I absolutely recognise that the £144 million has been framed as a 5 per cent council tax increase. However, if we go back to the start of the questions and look at the core budget, and take into account the drop in revenue there, the £144 million translates to approximately a 2.8 per cent council tax increase. Again, we are perhaps comparing apples to oranges, or perhaps apples to pizzas at this point—they are very different, and it is a real challenge.

Ultimately, I recognise that we are in a cost of living crisis and that the Government is looking to support hard-working families who are paying council tax. I recognise that this was a political decision. However, going back to the point that Mirren Kelly just made, when it comes to cuts to our services, there are times when communities do not mind paying that little bit extra to make sure that their services are safeguarded.

A range of council tax figures were used in our "Councils are Key" document. One local authority was planning on a council tax increase of up to 10

per cent. I think that if the core budget had not been cut and we were looking at the 5 per cent funding, that would be a different situation. The situation will be different across local authority areas and we are still looking at how that 5 per cent will be distributed, because that information has not been settled as yet—that is part of the ongoing dialogue about the council tax freeze funding of £144 million.

Willie Coffey: You said that people would be happy to accept paying a little bit extra. How much is that? Is it the 2.8 per cent that you mentioned? Is it the 5 per cent that the Scottish Government thinks that this funding is? Is it 8 per cent, which one of the contributors last week thought that it could be? We never quite pin down what an acceptable little bit extra figure actually is. Does COSLA have a view from its member authorities of what they consider that figure should be?

Councillor Hagmann: In our budget lobbying document, we included the full council tax freeze of £300 million. We asked for £300 million and we got £144 million. The £300 million related to about a 10 per cent increase, which captured a range of opinions across local councils.

I think that the real difficulty with this issue is that councillors do not want to ever put up council tax. We absolutely appreciate that it is a tax. There is an on-going dialogue, which I co-chair with the minister, looking at council tax reform. That is a really positive space. We are progressing that and it is almost a separate dialogue about empowering local authorities, for example to increase council tax on second homes. There is a real positivity coming out of that space.

To return to where we are right now, we had asked for 10 per cent, in essence to cover a whole host of bases. However, ultimately, until we know what the settlement is, the council tax is about questions such as, "What cuts are we able to make? What is palatable and what is not? How do we balance putting up the council tax with reference to what we might need to cut?". I think that it is fair to say that council administrations rise and fall on council tax decisions. When you speak to your constituents and it is coming up to budget time, one of the first questions that people ask is, "What's happening with the council tax this year?" Until we know the final settlement figures, it is quite hard sometimes for a local authority to judge where it will pitch its council tax increase or whether it will have one.

Willie Coffey: Thanks, Katie. I will move on and ask you about workforce challenges, which have featured at the committee during the course of our scrutiny. We know that there are workforce shortages, but there are also workforce challenges, which are different. I think that was alluded to earlier, when we were talking about

directed spend and the lack of flexibility. What kind of discussion is COSLA having with the Scottish Government about workforce issues? Am I interpreting correctly what your colleague said earlier about flexibility when it comes to directed spend? Does that include workforce issues and workforce numbers?

Councillor Hagmann: It absolutely does. The £3.2 billion that goes on the pay bill for teachers was referenced. That is a significant spend in the area. We need that flexibility and we need to understand that, in order to have good education, we need good teaching staff in the classroom. We also need a whole host of support as part of that holistic viewpoint, whether that is classroom assistants or the delivery of free school meals, which is a huge issue that will bring positive outcomes to our young people. You cannot learn if you are hungry. The Scottish Government's commitment to the delivery of free school meals is admirable, but we need to find ways to progress some of those issues.

On the workforce challenges, there is a recognition that each local authority is very different and that what is a challenge in one area is not necessarily reflected in another. It is fair to say that we are looking at ways to be innovative. We have a special interest group in COSLA that is directly looking at ways of transforming things. It is an innovation space; it is about allowing space to have dialogue and ask, "Where can we do things differently? How can we be more efficient? How can we work collaboratively?".

That working group space is on-going, but it is fair to say that we have been doing this for a number of years across local government and are not finding our way through it, which is why returning to the Verity house agreement and focusing on how we take those three outcomes forward must be key—we have to be fully committed. It is about having those difficult conversations and sometimes saying, "We will not be able to deliver that," so that we do not end up in a blame game.

Willie Coffey: Do David Robertson or Mirren Kelly have any comments on workforce?

Mirren Kelly: Around 70 per cent of local government spend is on staffing, so any budgetary decision necessarily has to consider the workforce. The vast majority of our workforce are on the front line and delivering key services, so cutting the workforce in effect means cutting those services.

In many spaces there is limited opportunity for finding efficiencies in how things are delivered, but there are opportunities in other spaces. The size of the workforce in local government has now recovered to where it was in around 2011, but that

ignores a significant increase in responsibilities: the 1,140 hours of early years provision; free school meal provision; requirements to maintain teacher numbers; and improvements to the pupil to teacher ratio.

The workforce is doing a lot and every change that we make necessarily has to consider the workforce implications. There are huge challenges in recruitment and retention. You heard some good examples last week from directors of finance of the challenges that councils face locally. The point is that not only remote and rural areas have challenges, although they have unique and added challenges. The director of finance for Glasgow City Council said that it is having real difficulty in recruiting the key professionals who keep everything going.

David Robertson: All I would add is that there were 260,000 people in the local government workforce in 2023. Councils are very complicated businesses and they require people from a variety of professional backgrounds—surveyors, lawyers, planners, engineers, clerks of works and so on—to run them. We are increasingly struggling to recruit people to those professional disciplines in local government. One of the reasons for that is that there is not the money to employ the number of people that we would wish to see in those areas.

We have rightly prioritised education and social work over the years, but that has meant that councils have had to make reductions in other central services. We are increasingly struggling to get the breadth and quality of people that we need to run Scotland's councils effectively. That is a major challenge for our workforce planning. The age demographic of the workforce shows that bringing people into local government and making young people see it as an attractive career where they can develop and flourish is a challenge. Sitting at the heart of that challenge is resource and what we can afford to do with regard to our workforce.

10:00

Willie Coffey: I am sure that that will be an important part of your on-going discussions with the minister. I am absolutely certain about that, because it crops up time and time again.

My third question is about capital budgets. I will start with you again, if I can, Councillor Hagmann. There has been a reduction to Scotland's capital budget, but one of the provisions that the Scottish Government has made is to allow a transfer of £120 million from capital to revenue. On the one hand, that will help the revenue budget but, on the other, it will clearly have an impact on the capital budget. I am thinking particularly about issues such as reinforced autoclaved aerated concrete

and how we make progress towards net zero in our various council estates. Councillor Hagmann, will you give us your view of whether that is the right measure to take, or whether we need to do more or do things differently?

Councillor Hagmann: I will pass the question on the figures to Mirren Kelly, because the transfer of funding is to do with last year and pay, and it is a more technical point.

The wider issue of cuts to our capital budget is on-going. We are working closely with the Scottish Government to find solutions for the future.

The issue of RAAC in schools was highly publicised by the media, but RAAC is not just in schools; it is across our community centres. Shirley-Anne Somerville has written to keep in touch and continue the dialogue on how we progress that.

As you said, there are also issues about our ambitions on net zero. About 82 per cent of all emissions are within the scope and influence of local government decisions and that will clearly have a significant effect.

Cuts have been made to the regeneration capital grant funding, which allows for exactly what it says on the tin: regeneration of some of our derelict buildings and other projects that have been progressed. Some hugely positive projects have been completed with the assistance of that Scottish Government funding, but cuts to funding for the derelict land improvement programme, which is taking forward some really ambitious targets, will have a knock-on effect.

I will pass over to Mirren Kelly to give you more details on the other point that you made about capital.

Mirren Kelly: I will pick up on the point about the £120.6 million. That was put into the local government settlement as capital to support the 2022-23 pay deal. That was done by agreement with local government, whereby we identified areas where we could effectively release revenue by having the capital funding. When local government might have used revenue to support a capital project, it was instead able to take the capital money and release the revenue to support the pay.

At that point, however, we said that we could sustain that for only two years and that it must come in as revenue funding from this year onwards. That was a known and expected reduction to what we were expecting as a base. However, our core capital grant is cut by £37.1 million, and additional cuts have been made to our specific capital grants and other areas, such as the regeneration capital grant funding that

Councillor Hagmann mentioned, and, notably, the affordable housing supply programme.

All those cuts will have a huge impact on the capital plans that had been made, which had already been significantly revised in the light of inflation. The huge cut in the affordable housing supply programme will have a noticeable impact on homelessness in communities and on the local economy.

I come back to the point that, because our core capital grant is used to invest in and maintain key useful community assets, the cut makes it much more difficult for local authorities to deal with issues such as RAAC or other maintenance issues. It makes it that much harder for everyone.

Willie Coffey: While you were talking, I was double-checking some of the figures that I mentioned. Our briefing from our SPICe colleagues shows that an additional £120.6 million is being switched from capital to revenue for the 2024-25 budget. That is quite clear in the figures. I do not know whether SPICe could clarify that, but that is what the briefing says. The same capital to revenue switch that was made last year is being repeated for the coming year.

Mirren Kelly: Yes—instead of receiving that money as capital this year, it is being switched to revenue.

Willie Coffey: That was done last year and it is being done next year.

Mirren Kelly: It was capital last year—or, rather, in 2023-24—and it is coming in as revenue in 2024-25.

Willie Coffey: Okay. Thank you very much for your responses to all those questions. I appreciate that.

The Convener: The final few questions will be asked by Miles Briggs.

Miles Briggs (Lothian) (Con): Good morning, and thank you for joining us. My first question is about COSLA's hopes for the European Charter of Local Self-Government (Incorporation) (Scotland) Bill, which we expect to come back to Parliament for the reconsideration stage. How could that help, especially in relation to the financial situation that we have discussed this morning?

Katie, would you like to come in first on that?

Councillor Hagmann: Absolutely. A question was raised at our leadership sounding board on Friday about where we are on that. COSLA leaders are very keen for the bill to progress, because its enactment will have huge advantages as regards increasing parity between the Scottish Government and local government. It is one of our long-term objectives that the bill progresses, and it

is one of the key elements that have been mentioned as part of the Verity house agreement.

The bill seeks to strengthen the status and standing of Scottish local government, which is obviously an ambition of COSLA. In addition, there is a desire for local government to have the general powers of competency for which the bill provides, in order to empower us.

However, we must be mindful of the language that we use and the wider framework that we are working within. Although other countries across Europe might have achieved incorporation, it is not necessarily always in the gift of the Scottish Government to pass the powers in question to Scottish local authorities, because the Scottish Government has not been given those powers by Westminster. We are working in a slightly different landscape from that of other European countries, which have a different framework.

Incorporation of the European Charter of Local Self-Government is absolutely an ambition of ours and one that we are keen to progress. As I said, the issue was raised last week, when it was asked where we are on that and whether we can make progress at pace.

I think that Mirren Kelly has further comments on the opportunities of incorporation.

Mirren Kelly: The establishment of the right to local self-governance in legislation is key. Apart from the parity of esteem space, one area where that would have benefits is in ensuring that, where there are any changes that might affect local government, there would be a stronger requirement to make us part and parcel of any discussion and development at the outset instead of our being brought in after things have started to be developed. Another area that has been flagged this year is the expected impact of the European Charter of Local Self-Government on decisions on, for instance, the council tax freeze.

Miles Briggs: Thank you—that was helpful.

We have already touched on the issue of reserves, but what is COSLA's view on the use of reserves by councils to cover some of the funding gaps that they face? The issue of reserves and how big or depleted they are has already been part of our conversations and deliberations, but I just wondered what COSLA's view is and what advice is being given to councils.

Councillor Hagmann: Perhaps I can start with some general points and then Mirren Kelly can fill in some little details.

Councils hold varying levels of reserves, but it is important to bear in mind that reserves are just one-off pots of funding and that it is not possible to use them to cover recurring costs. That would not be seen as good governance or practice.

Moreover, some reserves are used for underwriting some really ambitious projects. Funding comes in from a whole load of streams; sometimes councils themselves have to underwrite them, and reserves are there to cover such emergency situations. Indeed, I think that someone referred earlier to the use of reserves to deal with environmental and storm damage. I know that Angus was particularly struck by such events at the tail end of last year and had to rely heavily on its reserves to combat them.

We have to ensure that any reserves that we have are utilised correctly. Yes, they are there for rainy days, and it is fair to say that it is pouring quite heavily at the moment. However, that rain could continue for a long time, so we have to be mindful of how the reserves are utilised. We acknowledge that they are there, but the majority of them are earmarked—and for good reason. Once they are gone, they are gone. Indeed, we are seeing stark warnings from south of the border and across England, with some local authorities facing bankruptcy because they do not have reserves to see them through. We are not in that situation in Scotland right now; however, some local authorities are exceedingly concerned and worried about the future, and we have to be really mindful of how the reserves are spent.

For some specific examples and further clarity, I will bring in Mirren Kelly.

Mirren Kelly: The key point is that an increasing number of councils are having to rely on reserves to balance their budgets, and that is not sustainable. It is a significant concern; indeed, that has been echoed by the Accounts Commission report that was published today.

David Robertson might have some specific examples.

David Robertson: The maintenance of reserves is a fundamental part of good financial planning. You would expect businesses that are as large and complex as local authorities, given the range of risks that we face, to run an appropriate level of reserves.

According to the local government benchmarking framework set out in 2021-22, the average level of reserves in the majority of councils is around 3.5 per cent of net revenue expenditure. When faced with uncertainties such as potential storm damage, winter weather conditions and a whole host of other issues that we are seeking to manage, that does not seem to me to be unreasonable. The key point about reserves is that, of course, they can be used only once and need to be topped up.

The other thing that people should remember is that the reserves are not necessarily cash backed; there is not an account that we can go to and say,

"I'm going to withdraw my reserves." We need to go out and borrow money to replenish reserves. They are a fundamental part of good financial management, but there is not necessarily a big pot of bail-out money sitting there that we can draw on. The reserves are there for emergency situations.

To put that into context, in my authority, we maintain a winter reserve, but it will cost us £1 million to £2 million to deal with a large dump of snow that takes place during one week. If the reserve is 3.5 per cent of net revenue expenditure, that is probably equivalent to two weeks' operating expenditure for the majority of councils.

10:15

Miles Briggs: There may be more questions about that. We could ask the Scottish Government for information on the councils that have had to use their reserves and on those that are considering using them.

I also want to ask about national policies that require local authorities to assist in their delivery. To what extent does COSLA ensure that policies that are to be delivered by local authorities are appropriately funded, and that they can be properly maintained in line with inflation and in consideration of potential additional demands that might emerge? What framework currently exists, and what should be coming through the Verity house agreement? What does it look like now, and what needs to change?

Councillor Hagmann: Clearly, there will be political choices and national policies and COSLA is clear that it must have early dialogue on those. If local government is the delivery partner, we will work collaboratively on that. Such policies must be fully funded and, importantly, they must not only be fully funded for the first year but baselined in the future. However, we are clear that we need to move away from directed spend and ring fencing.

Ultimately, it comes down to trust. If funding is going into the local government budget, and we have made a commitment to deliver initiatives, there has to be trust that local government will do so. It is a sticky situation, because we have ring-fenced money and directed spend—we have seen an increase in funding of that type. One of the key drivers in the Verity house agreement is that we move away from that model, because there has to be a level of trust. Councillors are the closest to our communities insofar as we are right there on the front line in communities, and councils sit there, too. We understand what communities need more than ministers do, sometimes—with all respect to those in that sphere. We have to base our decisions on evidence and on what the outcomes will be.

There are national policies that will help with the agreed priorities, and that is where real, honest dialogue has to happen. If there is a new policy that does not sit within the agreed outcomes, perhaps local government has to say, "No, we are not able to deliver that, because these are our priorities and this is what we have agreed." That has not been tested as yet, as we are still in the early stages of the Verity house agreement, but there needs to be bravery and we need to do things differently.

I may have mentioned that in previous sessions, but I am now 18 months into this role and I do not want to be sitting here in four years' time saying, "Well, that was our ambition and it has not happened." I hope that, if I am invited to give evidence this time next year, I may be able to give real examples of where we have deprioritised some of the commitments that have been made. That is not because we do not want to make those commitments; it is because of the financial constraints that local government and the Scottish Government face due to financial uncertainties.

Miles Briggs: That is helpful—thank you.

Given that we are going through a period of change, is it time to review the funding formula for councils? I represent Edinburgh, which receives the lowest share per head of population but has some of the largest challenges in the country around homelessness and children in temporary accommodation. There are also the national events that take place in the capital and the costs that arise from those. What is COSLA's thinking on that? When I have put that point to the Scottish Government, it has said that it is happy to take that forward but that it wants COSLA to suggest that it wants that to take place.

Councillor Hagmann: On the funding, it comes down to the quantum, but how that is distributed and any formulas for the future are being looked at as part of the Verity house agreement and the fiscal framework, which is our aspiration. However, again, we have to be mindful of unintended consequences, and some local authorities will be perceived to be winners and some will not, depending on the options.

It is a complex landscape, and we have to balance a host of things. For example, East Lothian and Midlothian have rapidly increasing populations, where growth is a real issue. In Dumfries and Galloway, where I am, and across the Highlands, there are areas of depopulation, but councils still have to provide statutory services. For example, I think that my local authority has the second-largest road network and we have to maintain that and think about how all those formulas work with that.

The issue is really complicated and I am not going to say that I understand every aspect of it; that is why we have directors of finance and why I have Mirren Kelly, who is living and breathing that stuff as chief financial officer for COSLA. At this point, it is maybe best for me to pass over to her. It is not easy. We have a working group that is looking at a fiscal framework and how different formula options could work. We are still working through the modelling of that with the Scottish Government to ensure a really good outcome.

Mirren Kelly: Fundamentally, the issue is the size of the cake that we are given, rather than the size of individual slices that local authorities receive. If the cake was big enough, you would not have the struggle that you do. The experience that you hear about locally from your councils, which are raising with you the challenges that they have, illustrates what we have been saying for the past 10 years and more, which is that there have been real-terms cuts to the local government settlement. That is why it is so difficult for councils to deliver the services that they are required to and wish to deliver.

The Convener: It has been a very useful evidence session. We have come to the end of it, you will be glad to know. It is helpful to hear the perspective of COSLA.

I think that Stephanie Callaghan has a supplementary question.

Stephanie Callaghan: No, I just need to declare an interest that I forgot about earlier. Until 2022, I was a councillor at South Lanarkshire Council.

The Convener: Thanks very much. That experience at local authority level is why you ask such good questions.

I just want to note that we had quite a lot of food metaphors this morning, so we have had a cake and apples while we have been busy with all those numbers. Thanks so much for joining us this morning. [*Interruption.*] I have just been reminded that we also had pizza—I forgot about that one.

I briefly suspend the meeting to allow for a change of witnesses.

10:23

Meeting suspended.

10:27

On resuming—

The Convener: On our second panel, we are joined by Joe FitzPatrick, the Minister for Local Government Empowerment and Planning, and, from the Scottish Government, by Ian Storrie, who

is the head of local government finance, and David Cowan, who is the head of regeneration and place.

I welcome you all to the meeting and invite Mr FitzPatrick to make a short opening statement.

The Minister for Local Government Empowerment and Planning (Joe FitzPatrick): Thank you, convener, and happy new year to all members. I thank the committee for inviting me to participate in the session today. I am particularly grateful for the invite as it provides me with an opportunity to discuss how important our relationship with local government colleagues is in relation to fiscal matters, and how the Scottish Government has been working to ensure that local government views are included in the broader priorities of Government as part of the budget.

In line with the Verity house agreement principles, this year has marked the beginning of a more meaningful pre-budget engagement process between local and national Government, which I was pleased was recognised by local government heads of finance during their session with the committee last Tuesday. I heard Councillor Hagmann refer to that in her evidence to the committee earlier today.

I also take the opportunity to highlight that pre-budget engagement with local government largely mirrored discussions that were undertaken with cabinet secretaries in relation to their portfolio interests. However, as those cabinet secretaries highlighted, in the face of a deeply challenging financial situation following the UK Government's autumn statement, the budget was inevitably unable to fully meet all of local government's asks.

Although we appreciate that local government will have hoped for a more favourable settlement, we continue to do all that we can to mitigate more than a decade of UK Government underinvestment in public services.

Despite the financial challenges that we have faced, we are delivering record funding of more than £13.9 billion to local authorities, and are making available a further £144 million to support reaching an agreement with councils to freeze council tax in 2024-25. Critically, in the most difficult budget since devolution, we have prioritised local government, and its settlement share of the discretionary budget has increased. The analysis to support that has been placed in SPICe.

10:30

In the first budget since the Verity house agreement was signed, we have already baselined almost £1 billion of funding across health, education, justice, net zero and social justice, prior

to reaching an agreement on an accountability and assurance framework. That is a significant step for ministers, and we hope that it demonstrates both our commitment to the principles of the partnership agreement and a willingness to place trust in local government to make more decisions locally that will enable better outcomes for communities across Scotland.

In the past year, we have worked in partnership with local government to agree greater flexibilities, including on the visitor levy and on increased discretionary powers over tax treatment of secondary and empty homes. That could raise an estimated £35 million for local authorities, should they decide to use those powers.

We will continue to work with COSLA to empower councils through a new fiscal framework, with an initial joint progress report published on 14 December 2023. The Scottish Government has also committed to empowering local government through increasing discretion to determine and set fees and charges locally. In the coming year, that will include joint work on building warrants and planning fees.

Although inflation is slowly falling, the damage that has been caused by the UK Government's economic agenda of austerity and Brexit has hurt everyone, particularly our most vulnerable households. We believe that, at a time when rising prices are putting significant strain on household finances, a council tax freeze will give households some certainty over the next year. By funding a freeze, we have helped councils to maintain their services while ensuring that households are protected from increasing budgets. I know that local authorities share our desire to help people across Scotland during these difficult times and the Scottish Government is hopeful that councils will be able to support that policy initiative locally.

I assure the committee that we will continue to work with COSLA to conclude the new deal with local government and provide councils with greater flexibility in future years, once the necessary accountability and assurance arrangements are in place. I believe that that will enable local government to better tackle local challenges in ways that work for them, thereby achieving our three shared priorities of tackling poverty, transforming the economy through a just transition to net zero and delivering sustainable, person-centred public services.

As has often been said both by ministers and by local government, this is the beginning of a journey. As with the building of any new relationships, there will be challenges and missteps along the way. However, if we can successfully achieve the goals of the Verity house agreement, that can only be to the benefit of everyone whom we jointly serve.

The Convener: Thank you, minister. You mentioned the Verity house agreement, which is our new deal with local government, and the three shared priorities. I am interested in understanding, from your perspective and that of the Scottish Government, how the 2024-25 budget, and specifically the local government settlement, will help local authorities to work towards the priorities that you outlined.

Joe FitzPatrick: In line with the Verity house principles, this year has seen a significant increase in meaningful pre-budget engagement with local government, which is equivalent to the process that was followed to ensure that cabinet secretaries' portfolio priorities, and the three shared priorities, were factored into the budget considerations. We did that up front prior to the budget—in fact, a lot of work was done prior to the autumn statement; that statement was clearly a surprise, and a shock to Scottish public services.

The budget invests in the Verity house agreement by baselining almost £1 billion of funding across health, education, justice, net zero and social justice. It is crucial to make the point that that baselining, which provides greater flexibility, has been provided in advance of the agreement on an accountability and assurance framework, which will sit alongside the fiscal framework that we are also working on.

We will continue to work with local government to develop the necessary accountability and assurance arrangements, because that will allow us to provide more flexibility to ensure that the priorities of the Scottish Government and of the Parliament are achieved, alongside the priorities of local government and the three shared priorities in the Verity house agreement. To be clear, in this budget, which is the most difficult budget since devolution, we have prioritised local government with a higher share of our discretionary budget.

The Convener: We will get into some of those details now.

Mark Griffin (Central Scotland) (Lab): Good morning, minister. I want to discuss the presentation of the budget figures and how we compare like with like, and how we compare the budget before us with budgets from previous years, so that the committee and Parliament can scrutinise the figures.

The Government has talked about a 5 per cent increase in this year's budget compared with the previous year's budget. COSLA and local authorities have said that a better interpretation would be to compare the entire amount of money that local authorities received for this financial year with the amount for the coming financial year. Their interpretation is that, under that analysis, there has been a 0.2 per cent reduction in real

terms. Why does the Government choose to compare a budget with another budget, rather than considering the in-year additions that the Government has made to support teacher pay and core pay?

Joe FitzPatrick: The short answer is because the Parliament tells us that we have to. The agreement between the Scottish Government and the Finance and Public Administration Committee is absolutely clear that we have to compare like with like—comparing pre-budget with pre-budget and outturn with outturn. It is a matter of comparing apples with apples. We are investing record funding in local government, with £14 billion going to local authorities, including for the council tax freeze. If we compare budget with budget, as is required, that represents an increase of £795.7 million, which is equivalent to a 6 per cent cash-terms increase or 4.3 per cent in real terms. The resource budget has increased by £840.3 million since 2023-24, which is 6.8 per cent in cash terms and 5.0 per cent in real terms.

I repeat that the way that we have presented the figures, in which we compare budget with budget, is as prescribed by the Parliament in our agreement with the Finance and Public Administration Committee.

Mark Griffin: Okay. I will take that on board when it comes to the presentation of figures.

We had directors of finance before us last week, and the director of finance from Argyll and Bute Council talked about the presentation of figures almost being alternative realities. Has there been any discussion with the Parliament and the Finance and Public Administration Committee, and with COSLA, on the development of the fiscal framework so as to come to a figure that is universally and commonly accepted as being the reality that is facing local government, which would allow both sides to come to an agreed position when it comes to this annual fight over figures?

Joe FitzPatrick: I think so, and that is what we are all hoping the fiscal framework will help us to do. As we heard from COSLA, that has perhaps proved to be more complex than some people first thought. It is important to get that right. We—COSLA and the Scottish Government—are doing the work: we are working in good faith to take that forward. I would not be surprised if the Finance and Public Administration Committee took an interest in the matter once the fiscal framework is concluded, but it may be more for this committee to consider it once we get to that point.

COSLA has articulated how it got to its figures, but that does not align with the view of the Finance and Public Administration Committee and the Parliament on comparing like with like, and on clarity.

Ian Storrie (Scottish Government): This is a matter of budget scrutiny. The issue that COSLA has raised is about spending power rather than about budgets. That is an important distinction.

I cannot quite remember which financial year it was, but I have a recollection that, around 2016-17 or 2017-18, in agreement with the then Finance and Constitution Committee, we published figures on a budget-to-budget basis, as well as on the autumn budget revision to the budget. That would start to stray into this territory, in the sense that the budget is not a static position; the budget is a constantly evolving position.

The issue with the COSLA ask regarding the latest stated position is that you have to do the same for every other portfolio and directorate in the Scottish Government. No new funding went into the Scottish budget at the start, so it had to be redistributed from within the budget. As soon as you get into that position of departing from a budget-to-budget basis, the comparisons across the entire budget change constantly. It was widely agreed by everybody at the time that that did not work as a comparison, and we have never done that since. That was done in partnership with the then Finance and Constitution Committee. I am sure that we could find the correct financial year that that relates to—I cannot remember which year, just at the minute.

Mark Griffin: Thank you for that clarity. We have also previously spoken about another issue relating to the presentation of figures. The Government says that, since 2013-14, local authority finance has increased by 2.6 per cent. That is an entirely accurate presentation of the figures. Local authorities' contention is that, between 2013-14 and now, they do far more, which is obvious when we look at social care contributions, the provision of 1,140 hours for ELC, free school meals and so on. They do a whole range of things over and above what they did in 2013-14. How can the committee get to an analysis of the baseline of local government funding, stripping out those extra commitments, to gain an understanding and appreciation of what has happened to core local government budgets during the period?

Last week, the director of finance at Glasgow City Council gave an example of someone working 20 hours a week for £20,000 who then starts to work 40 hours a week for £40,000. Although that represents an increase in pay, it does not take into account the huge increase in the hours that are being worked. What is your take on that? How do we analyse core Government funding without the extra things that local government is doing to address significant national priorities, which we agree with? How do we get to a deeper

understanding and analysis of what has happened to local government finance?

Joe FitzPatrick: That point that local government has made is absolutely reasonable. Let us take a step back: in the aftermath of the Smith commission, there are significant additional responsibilities across a range of public services in Scotland that need to be funded from our devolved budget. On top of that, there are significant costs from a range of mitigations that the Parliament considers to be necessary to protect communities across Scotland from the worst ravages of Westminster. It is also worth noting that, in a lot of those areas, there is shared responsibility. We need to balance our available budget to get the best outcomes. For example, the £457.3 million—almost £0.5 billion—that is budgeted for the Scottish child payment is removing thousands of children from poverty and is working in synergy with anti-poverty actions that are being taken by many local authorities.

We need to look at the budget as a whole and we need to know that we are all doing more. If anyone hears a suggestion from me or any other Government minister that this has been a budget of easy decisions, that is not the case. There have been difficult decisions in the budget for the Scottish Government and there will be difficult decisions for local authority leaders in setting their budgets. We all want to do the best for our communities with the limited resources that we have.

Mark Griffin: Does the Government have an analysis or an interpretation? Last week, I asked the directors of finance for an understanding of core local government services and how the financial settlements over the years since 2013-14 have contributed to the services that are not ring fenced or are not mandatory. How have financial settlements impacted the core budget? Does the Government have an analysis of core local government spend?

Joe FitzPatrick: I will ask Ian Storrie to come in, but, in general terms, I suggest that that is exactly the kind of analysis that we need to get away from, as it looks at the inputs, which does not help. We are doing things differently. Across local authorities, there is some amazing innovation in the way in which things are happening, and sometimes a piece of work can help many of the outcomes. We need to look at outcomes. I hope that the fiscal framework, with an accountability and assurance framework alongside it, will get us to the point at which, across local government and wider public services, we can focus on what is making a difference for communities in Scotland. Looking at the way that we did stuff 10 years ago, when we do not do any of it in the same way, is not a real comparison.

Ian Storrie: You can point to some of the flagship expansions, such as free school meals and the early years provision, but you would also have to look at other things that have fallen away. I remember that, back in 2013, commitments were probably made on class sizes and other things. I completely agree with the minister on his point about the nature of that analysis, and that we have moved away—and are increasingly trying to move further away—those input-style measures.

However, the short answer to your question is that I do not think that such analysis exists, and I would be intrigued to see what directors of finance would come up with in that regard.

Mark Griffin: Thank you.

10:45

Pam Gosal: Good morning, minister. My question follows on from Mark Griffin's. Councils are providing more new and improved services—including free school lunches, early childhood education and services relating to social care obligations—that have outpaced the funding that is supplied by the Scottish Government. My question is on teacher numbers. Does local government have to retain teacher numbers, even where enrolment is declining?

It is very promising to hear from you today that you are moving away from input measures and towards outcomes. I have spoken to about 24 authorities, and they have welcomed that language on outcomes, especially with teacher numbers. However, where enrolment is declining, authorities must still deliver the teacher numbers that the Scottish Government has proposed. Local authorities feel that, although teacher numbers are important, innovation and teaching in different ways are also important. Many things surround teaching; it is not just about teacher numbers. What is your view on that?

Joe FitzPatrick: Some of those points are absolutely right. What are the outcomes that we are trying to achieve? They are better education and better destinations for young people. The question is how we get there. It will be no surprise to hear me say that the Scottish Government is committed to supporting recruitment of teachers. We are providing local authorities with £145.5 million to protect teacher numbers. Our ambition is clear—it is to close the poverty-related attainment gap.

That is an example of an area of shared responsibility, which is why the work on the outcomes and accountability framework to go alongside the fiscal framework is so important. That work is on-going. In the Verity house agreement, there are specific areas of funding. There is £145.5 million in local government

settlements to protect teacher numbers. That is a policy decision of the Scottish Government; I am not sure that I have heard any of the Opposition parties articulating a desire to reduce teacher numbers.

We need to look at the issue. We will make progress by working on the accountability and outcomes framework so that we all have the assurances that we need that the policies, particularly those that are shared between the Scottish Government, the Parliament and councils across Scotland, can move forward in a way that works for everyone.

Ian Storrie: Specifically on teacher numbers, as part of the budget letter from the Deputy First Minister to COSLA leaders, there was a specific request that they establish an education assurance board. That is being established to look at things such as whether protecting teacher numbers is the best way to improve educational outcomes. The request to COSLA leaders went alongside the budget, and was to establish that board in the early part of 2024.

Pam Gosal: I am fully aware of that letter. All the authorities that I spoke to mentioned it, and it is good that progress is being made and that you are looking at the issue differently. However, I want to probe that further. The question that I asked was whether local authorities should retain teacher numbers. Of course, teachers are very helpful, and I absolutely agree that no Opposition party would come back to you on that. However, my question was about declining enrolment. What formula do you use if pressure is put on local authorities to retain teacher numbers but enrolment is declining? I have heard from many local authorities on that—I spoke to a lot of chief executive officers, and they said that they still have that pressure.

Joe FitzPatrick: That is exactly what the education assurance board is for. I think that it has been set up: if it has not been set up, it will be shortly. That will allow the Scottish Government and local government, with other partners in education, to take forward that issue in a meaningful way and to get the shared reality that we all want. What is the right number? What is the best way to spend money? What will achieve the outcomes that really matter on attainment, which ultimately will help to drive down poverty levels?

Pam Gosal: That is good to hear. As I said, minister, I welcome that. I will wait to see progress, because it is a shame that councils still have that pressure when school rolls are declining but other areas are growing and probably need funding.

You mentioned £144 million. Obviously, the Scottish Government claims to have funded the

council tax freeze pledge by providing £144 million to local authorities. However, the Fraser of Allander Institute estimated that freezing council tax alone might cost Scottish councils up to £229 million, which will leave a substantial shortfall for our councils. How do you respond to claims that a freeze will have a detrimental impact on councils' tax base in future years? Where should councils look for savings in their budgets? In which departments and areas should they do that?

Joe FitzPatrick: The sum of £144 million that we have set aside in the budget is equivalent to a 5 per cent council tax increase nationally; it provides the money that would have been raised by a 5 per cent increase. If councils agree to that, more than two million council tax payers will benefit from a council tax freeze in 2024-25, which will provide much-needed financial relief, especially for vulnerable households.

As I understand it, the Fraser of Allander Institute figures included an allowance for the multipliers. There was a joint COSLA and Scottish Government consultation on changes to the system of council tax multipliers; there was very little support for the changes. The analysis of consultation responses has been released today. Of the 32 councils, only four said that they supported the changes. Because the changes were not supported, they have not been taken forward.

The sum of £144 million funds a 5 per cent increase in council tax across Scotland. I heard that in the previous evidence session it was suggested that some councils were talking about a 10 per cent increase in council tax. That might almost have been able to fly last year, with inflation running at the levels that existed then, but inflation is expected to be around 3 per cent, so it would be difficult for councils to talk about that sort of increase.

I think that the 5 per cent allocation is fair for councils across Scotland to fully fund the council tax freeze. I hope that all councils will take that up and that all council tax payers will therefore benefit from it.

Pam Gosal: Thank you, minister. I will probe that further. Let us put the Fraser of Allander Institute estimate to the side. The committee has heard from councils and COSLA, and I have heard from them personally—as I said, I have been speaking to CEOs. They are under pressure. Whether 5 per cent is good enough or whether the figure should be 10 per cent, they are going through really challenging times. What examples can you give of the sort of savings that councils could make? We know that certain areas, such as education and social care, are ring fenced, but what areas do you think that councils need to start

looking at? There is a massive budget gap and they are experiencing challenges.

Joe FitzPatrick: No one is suggesting that there is anything easy in the budget this year. There have been really difficult decisions for the Scottish Government—for the Deputy First Minister, in particular—in looking at all the challenges across the Scottish public service. Equally, it will be challenging for our local government colleagues. It would be disingenuous of me to tell local authorities how they should allocate their budgets. Differing decisions will be made based on local circumstances.

We have increased the discretionary budget by £1 million, which is un-ring-fenced. I want to go much further than that, but it is difficult for us to do that without the work on the fiscal framework and the accountability and assurance framework, which ensure that not just the Scottish Government but Parliament have confidence. That will give us the two-way trust that Councillor Hagmann talked about. It has to be two-way trust. That is why so much effort is being put in to those discussions with COSLA.

Pam Gosal: Thank you, minister. I look forward to that progressive work.

Stephanie Callaghan: Good morning, minister. Previously, we have heard directors of finance and COSLA arguing that budget reductions result in councils spending all their time and money on reacting to problems instead of trying to prevent them from arising. What are your reflections on that?

Joe FitzPatrick: I am trying to remember, but I think that Glasgow City Council made that point last week. However, I think that it is selling itself a bit short. Some amazing work is going on across local authorities, but generally it is when they work in partnership with other public services that we can really see the difference and great results being achieved.

I am going to give a shout-out to three local authorities that I think are showing the innovation that is happening across the country. Glasgow City Council and Dundee City Council have their pathfinder work, in which they are supporting families out of poverty by testing innovative models of person-centred service provision. Once that work has been completed, we will see whether it can be applied to other authorities. I should say that the models in Glasgow and Dundee are not the same; they are different; as a result, we would be looking for local adaptations to such innovation. The other authority that I will highlight is Clackmannanshire Council, whose family wellbeing partnership is testing and embedding wellbeing and capability approaches to tackling poverty.

No one is saying that managing the budget is easy—that is for sure—but on the suggestion that there is no time for innovation, I say that this is absolutely the time for innovation. Since I have been an MSP, we have been talking about how we shift resources from reactive to preventative approaches, and we are starting to see that work happening. It was always going to be difficult, but it is happening. The work in Dundee, Glasgow and Clackmannanshire is all about prevention and saving individuals from future trauma and, in turn, saving public services in the future.

I have given three examples of the preventative work that is happening. There are many more such examples across Scotland.

Ian Storrie: I will comment on the more strategic aggregate level. A huge amount of funding has gone into early years expansion and free school meals. Enormous pots of money have gone into activities at the national level that are, ultimately, preventative in nature.

Stephanie Callaghan: As a follow-up to that, how big a priority will investment in prevention and early intervention be in your future work with local authorities?

As we all know, such an approach saves us money in the long term, but it should be the outcomes that are being targeted or the targets themselves that set the direction and the focus. How will you ensure that they will be central, as we move forward?

Joe FitzPatrick: We all have roles to play in that. We want to look at outcomes, but often we find ourselves instead going back to the inputs, whether they be the finance or numbers of X or Y. As a Parliament, as a Government and as a society, we need to find a way of shifting our analysis on to what will make the difference. A number of on-going pilots should help us in that respect. The Government cannot do that in isolation—neither can local government or the health service. We need to work in partnership right across the system.

As Ian Storrie said, the Government is putting significant funding into supporting some big-ticket items and work that, I hope, will be preventative in the future. One huge example of that is the Scottish child payment.

Stephanie Callaghan: Do you see that as something that you can embed in your frameworks?

Joe FitzPatrick: We have to do that. That is why the three principles in the Verity house agreement are key to our moving forward, and why it was crucial for them to be agreed across all the parties. After all, preventative work is not for

the here and now but for the long term, so we all need to buy into it.

Politically, there has been buy-in to the principles. Clearly, there are differences in views about how we will take things forward, but we all come from different parties, so there is an understanding that there will be differences in political views in certain areas. However, as far as the basic principles are concerned, there appears to be universal agreement across the Scottish political spectrum.

Stephanie Callaghan: That was helpful. Thank you.

Marie McNair: Good morning, minister and officials. One of the aspirations of the Verity house agreement was that the fiscal framework, which you have spoken about, would be concluded by September 2023. That did not happen. How confident are you that the fiscal framework can still be agreed? Do you have any timescale for when it will happen?

11:00

Joe FitzPatrick: As Councillor Hagmann said, that was an aspiration. If we had had the fiscal framework in place by September, it would have been able to feed into the budget, which would have been good. However, it is important that we get it right. A huge amount of collaborative work between the Scottish Government and COSLA is going into the fiscal framework, and that work will continue. As was said, we want to get it ready as soon as we can, but it absolutely needs to be right.

In the meantime, we have taken a number of actions in the budget that support some of the principles that we expect to be in the fiscal framework—for example, on ring fencing, £1 billion is being baselined, which is really important. It is important to recognise that there is no simple formula. There was a suggestion previously that we should just take a percentage of the Scottish budget. Well, this time, we have given local government a higher percentage of the Scottish budget, but it still does not meet the aspirations, because of what we are all trying to do across Scotland's public services. The framework is important, but it is important that we get it right.

Marie McNair: Is there no timetable? Will it be finished later in the year? I do not want to press you, and I know that it is important that we get it right, but at the same time—

Joe FitzPatrick: A huge amount of work is going on. The timetable is not in the Scottish Government's gift, as we are working with COSLA—there are two partners.

Ian, is there anything that we can add?

Ian Storrie: I can talk about matters of process, which perhaps stop short of answering the question but explain the situation. We have been working with COSLA constantly on the fiscal framework over a number of years. Around May last year, we presented papers to our respective political leaders to try to take forward a fiscal framework. I believe that, at the end of May, COSLA leaders tasked their officials with taking forward exploration of a rules-based framework. That had never been discussed until the end of May.

We worked with COSLA to clarify what a rules-based framework was. There was no particularly clear understanding, and we discussed whether it would be something like the statement of funding policy, the Barnett formula or the Scottish fiscal framework with the UK Government. We discussed all sorts of interpretations of what a rules-based framework might look like.

In June, we took a paper to COSLA officials that set out half a dozen scenarios of what a rules-based framework might look like. They then took a paper to COSLA leaders at the end of September, which set out the opportunities and the risks. There are huge risks in terms of other technical issues, such as machinery of government changes. How would a formula reflect those? How would the non-domestic rates guarantee feed in? How would the Bellwin scheme operate? What would the timing be? What would happen with the UK budget?

There are huge complexities underpinning that. COSLA took a paper to its leaders at the end of September, and it has now approached us to explore with it two preferred fixed percentages of the Scottish budget. COSLA has asked us to work with it to try to develop that. I have, I hope, set out the complexity of that—it is a brutally complex ask. Our thinking about what it would have looked like in the past couple of years is hugely complicated by things such as Covid funding. We do not know how that would have fed into the percentages.

We continue to work with COSLA to try to understand what a rules-based formula might look like to enable COSLA to hone its request of ministers. At the moment, it has not made a request of ministers. Once it has, we will work with ministers and COSLA to understand how that would operate in practice. My position, as the head of local government finance, is that I am again looking at September as our deadline to get this into next year's financial position, but I cannot overstate how complex a mechanism that will be.

Marie McNair: Thanks for that information. That gives us a better understanding.

Last week, we heard from the directors of finance about the pressures that councils face. A

report by the Local Government Information Unit showed real concern about the future of council finance, which was backed up by the Accounts Commission report that was published today. To what extent will the budget contribute to public services, and to local government finance becoming more sustainable?

Joe FitzPatrick: It is good that you mentioned the report that the Accounts Commission published today. The report concludes—well, this is the conclusion that I take from it—that Scottish local government is in a very different position from local government in England, where a number of local authorities have, effectively, gone bankrupt. The report states that “auditors did not identify any councils in Scotland as being” fiscally “unsustainable in the short term.”

It is clear that we need to work to ensure that we continue that position. The fiscal framework will help with that.

We have prioritised local government in the budget, so a larger share of Scotland’s discretionary budget is now going to local authorities, but they will still have tough decisions to make, as they go forward. Part of the approach to dealing with that will involve public service reform, which has to happen across Scotland unless something changes with regard to the quantum of budgets.

This year, the autumn statement reflected a budget that prioritised tax cuts for the richest, rather than investing in public services. We have had to try to adapt to that. The statement was far tougher than anyone had expected, and that is difficult for the whole of the public service, including local authorities.

The Convener: Stephanie Callaghan has a supplementary.

Stephanie Callaghan: Minister, you mentioned the autumn statement. Do you feel that COSLA and local government, and perhaps the public more generally, understand the seriousness and depth of the impact that it is actually having?

Joe FitzPatrick: I am not sure that the public fully understand the challenges of what Scotland is facing, based on what was agreed in the autumn statement. There were some headlines, but there were also devastating 10 per cent cuts to capital, for instance, and those things cannot simply be wished away. We have to deal with them, and we have to have a balanced budget in Scotland.

I think that COSLA and local authority leaders take a view in public. It is COSLA’s job to argue for local government, so of course it will argue for more money for councils. Having spoken privately

to political leaders across the spectrum, however, I think that there is a recognition of just how difficult the statement was.

It is clear that political decisions have to be made. We are at stage 1 of the budget process, and there are suggestions for how the budget could be moved forward. I know that the DFM will have discussions on that with finance leaders in all parties.

Stephanie Callaghan: That is helpful.

The Convener: I call Willie Coffey.

Willie Coffey: Good morning, minister and colleagues. I want to ask about the thorny issue of multiyear settlements. The Verity house agreement made clear the intention that we would try to take that approach wherever possible, but as a Government, you face constraints in that regard, as you do not get multiyear settlements in your own budget.

How do we square those two things and resolve the situation? Is there ever going to be an end to this particular debate? I have been hearing for years that everybody wants multiyear settlements, but we never quite seem to be able to deliver them.

Joe FitzPatrick: We effectively gave a heads-up with regard to high-level spending in the “Investing in Scotland’s Future: Resource Spending Review” public document that was published in May 2022 and which looked at the Scottish budget up to 2026-27.

However, we are publishing a one-year budget for 2024-25 because, although we recognise the merits of multiyear budgets, the nature of the autumn statement and the Office for Budget Responsibility forecasts make future prospects more volatile. It could in fact be misleading, and more unhelpful, if we were to suggest that there was some certainty about the position going forward.

We will revisit the multiyear outlook in the next medium-term financial strategy, which is due to be published in May 2024. However, if we were to suggest that we could promise what was coming in the future, that might not be as transparent as it might at first appear.

Willie Coffey: Has there been any progress with colleagues in the UK Government on that big issue, given that it recurs year on year? Has there been any progress on that whole direction of travel?

Joe FitzPatrick: This year saw the least transparent process that we have ever experienced in relation to discussions with the UK Government about what was in the autumn statement. The lack of transparency was unheard

of, in terms of the scale of what came to Scotland with no discussion. We know that other parts of the UK are facing those challenges, too; members will have heard comments from Welsh finance colleagues in that regard.

Willie Coffey: Let me ask you about ring fencing, un-ring-fencing and directed spend. You have removed nearly £1 billion that was formerly ring fenced and highlighted some of the policy areas that that removal had reached. Last week, however, the committee heard from the directors of finance that they were a bit sceptical about even that figure. First of all, can you clarify whether you have removed nearly £1 billion of ring-fenced funding and baselined it?

Joe FitzPatrick: Yes, we absolutely have. The figure is just under £1 billion, and we have set out in detail the areas that we have un-ring-fenced. I totally get that local government wants us to go further—I want us to go further, too—but we must have the outcomes and the accountability and assurance framework in place so that not only Government but this Parliament has confidence going forward and we can build that trust that Katie Hagmann talked about earlier. That is a really important part of the work that we are doing around the fiscal framework; indeed, it is one of the workstreams set out in the Verity house agreement. We need those things to be in place.

Local government delivers many things that are joint responsibilities of it and this Parliament and this Parliament, too, has its priorities. The point is that respect needs to go both ways. We need to recognise that this Parliament and local government have roles and responsibilities. Having that accountability and assurance framework would be the big win from the new deal, as it would lead to an understanding around what we are trying to achieve and what outcomes will make a difference to the people of Scotland. I want us to go further, for sure, but we have un-ring-fenced nearly £1 billion.

Ian Storrie might want to come in here.

Ian Storrie: The concept of ring fencing is often misrepresented. Fundamentally, very little of the budget is actually ring fenced. The point about directed spend is more important. Far and away the largest ring-fenced funding line was for the expansion of early learning and childcare, which is, ultimately, ring fenced by statute, not by Scottish ministers per se. In other words, a huge part of the ring-fenced funding was supported by statute. It is not always the case that Scottish ministers have imposed ring fencing on local government, but it is the way that the funding has evolved for the expansion of key services.

That key thing has been removed, and local authorities now have far more flexibility in

delivering the 1,140 hours of childcare. However, they are still statutorily required to deliver the 1,140 hours, so the flexibilities exist within that provision.

Willie Coffey: From the discussion, it sounds as though directed spend is some kind of constraint on local government, but I always understood it to be about shared priorities. Do you see scope for further flexibility to address the issues that COSLA keeps raising?

Joe FitzPatrick: I certainly hope so, and we are working on having more flexibility. As you have said, there are some shared responsibilities. For instance, this Parliament has taken the decision that it wants to provide free school meals, but can we be less prescriptive about how local authorities deliver that policy so that they can look at their local priorities and work out what works for their areas? We clearly have a direction of travel; we are just not there yet. Indeed, nobody from Government has ever suggested that ring fencing would just disappear overnight. In the future, we do not want to have ring fencing without agreement.

Pam Gosal talked about speaking to lots of council leaders; I have been speaking to lots of council leaders, too. Often they ask for more money for X, Y or Z and, often, what they are talking about is more ring-fenced pots of money for specific things that they know will help their local authorities. I absolutely get that. I come back to the point that that is why outcomes and an accountability and assurance framework will be so crucial to having an agreed fiscal framework, if we are going to make the difference that we want to make.

Willie Coffey: Minister, you yourself mentioned a 10 per cent cut in the capital allocation to the Scottish Government, but we have switched some capital spend—about £100 million—to revenue in the past two years and for the year to come, as far as I am aware. What impact will that have on some of our priorities and the issues that we face, particularly with regard to RAAC in the local authority estate—and particularly, perhaps, in the school estate—and our net zero commitments? Having a reduced capital budget and then switching capital to revenue are bound to have an impact in that respect. Can you give the committee a flavour of that issue?

11:15

Joe FitzPatrick: I will let Ian Storrie talk about the complex matter of switching from capital to revenue.

You mentioned RAAC, and it is important that we touch on that. It is slightly separate. Previously, we have set out that we will give consideration to

funding for RAAC once we fully understand the scope and nature of what we are dealing with. Work to gather information across the public service is continuing. I would also point out that Scotland is not dealing with the issue in isolation; the cabinet secretary is in regular communication with her UK counterparts about it.

As for the wider capital budget, there has been a 10 per cent real-terms cut, added to which are the challenges in the construction supply chain such as shortages and high inflation. All of that makes it impossible for us to deliver on all the capital projects that we had hoped to deliver on. There was no inflation protection in the capital budget and, as I have said, we are now looking at a 10 per cent fall in real terms.

In no way could local authorities be immune from that. It will be challenging, and we will need to prioritise the things that most support our wider-term priorities, to keep us looking forward sustainably. We will need to come back to the Parliament with a refreshed multiyear capital allocation projection, focusing on the maximum impact that our capital investments can have on delivering the priorities of the Government and the Parliament. However, there is no way that we can have that kind of cut and not feel the impact.

A number of capital projects are already legally committed, so they have to go ahead, which will leave less money. Some cuts in other parts of the budget have been felt much more strongly. I am not going to pretend that there is a magic wand that I can wave to make this go away, because there is not.

Willie Coffey: Ian Storrie, do you have anything further to add, particularly on the local government response?

Ian Storrie: I witnessed Mirren Kelly trying to explain that earlier, and I can confirm that the Scottish Government and COSLA are in exactly the same space on that technical adjustment.

In 2022-23, across the 32 councils, local government identified capital projects that were being funded with resource funding. Then the local government pay deal came along. Scottish ministers wanted to invest money—£260 million, I seem to remember—in that pay deal, but they did not have the resource for that. They therefore provided local government with £120.6 million in capital funding, which the councils could use locally to fund capital investments and which, in turn, would free up resource to be used for the pay deal. The agreement at the time was that that would happen for the first two years and, in the third year, we would take the capital funding away and give the councils the resource to fund the pay deal.

Councils could, in a like-for-like comparison, still use that additional £120.6 million of resource funding this year to fund the capital projects that they had funded previously, because they were already using resource funding to fund capital investments. I am sure that they will say that that is no longer affordable, but the technical change of that switch was purely a cash-flow issue in those two years, and it should have no impact locally on local government's capital programmes.

Willie Coffey: I am delighted to hear that.

Joe FitzPatrick: The complexity of that shows the challenges of Scotland's current fiscal situation. My solution is that we should have the full powers of a normal independent country, but we will leave that for another debate.

Ian Storrie: Without getting into the politics of that, it is a fact that local government has far greater flexibility at the end of the year than the Scottish Government has. In the past couple of years, the Scottish Government and COSLA have worked together to use local government's greater flexibilities to support difficult decisions such as pay deals.

Willie Coffey: Thank you. I will leave it at that, minister.

Miles Briggs: Good morning, and thanks for joining us. I will start with a question about how the Scottish Government would respond to the directors of finance—a few of whom we have heard from as we have been looking at the budget—that there is no more room for efficiency savings. What would the minister say to councillors who are now looking at potential cuts to non-statutory services?

I will ask another question afterwards.

Joe FitzPatrick: This goes back to Pam Gosal's question. Hard decisions will have to be made; indeed, the Scottish Government has had to make hard decisions. I am not pretending that setting a budget will be an easy process for any council; councils will have to make difficult decisions, too.

We have supported our local authority colleagues as much as we can by increasing the share of the discretionary budget that we have, so we have prioritised local government. I do not think that anyone is pretending that the settlements anywhere meet our aspirations, but we have to face the reality of what was delivered to us in the autumn statement, and we have to set a budget that works.

Miles Briggs: In the past, a lot of councils have taken decisions, for example, to set up arm's-length organisations for leisure services. There are reports here in Edinburgh that significant potential cuts and closures are being considered.

Where councils have taken such decisions and are potentially looking at cutting their funding for those services—and, in turn, making the services unsustainable in the future—is the Scottish Government advising them on what different models are possible, and suggesting that they take a different approach? Is Government working with councils to develop such approaches and to ensure that those potential cuts and closures do not take place?

Joe FitzPatrick: I know that a lot of local authorities took the decision to move their services into ALEOs in order to get a more favourable VAT position. Maybe it would be better if we were able to have fiscal arrangements on VAT and non-domestic rates that did not distinguish between different set-ups, so that things could be done in whatever way was best instead of having to try to work around the system to make what is effectively public money circulate in a different way.

Ultimately, those decisions are for local authorities. I know that it is never easy, and I urge local authorities, and colleagues in the Parliament—particularly when they are looking at things such as leisure facilities—to do so through the eye of preventative spend, as we talked about earlier. In doing that, we need to ensure that we account for all the benefit of that spend. Sometimes it is more difficult to do that, and we look at things simply as a cost and do not actually manage to report the benefit to the local community or to the local authority or other service provider.

Nobody is suggesting that that is an easy fix. I know that some local authorities are considering bringing their ALEOs back in-house to ensure that they are more integrated with the rest of the council services.

Miles Briggs: In the Scottish Government's letter to the committee, ministers acknowledge that there are significant workforce shortages and challenges, and that those will “continue to have a significant impact”, often making it more difficult

“for local and national government to achieve ... shared priorities ... committed to in the Verity House Agreement.”

In previous meetings, we have touched on that issue with regard to the workforce challenges in planning departments. Why do you think that workforce planning has been so poor for such a long period, and what can change in that respect? The Verity house agreement did not place a real emphasis on the need for future workforce planning.

Joe FitzPatrick: As you have said, we have talked about that before. In general, there are

three areas where there are particular pressures: environmental health; planning services; and building standards. As we have discussed previously, significant work is going on in all three areas to improve that aspect.

In environmental health, for example, a lot of work is going on. In addition to the work that we are doing directly with local authorities, Food Standards Scotland has awarded the Society of Chief Officers of Environmental Health in Scotland £0.25 million to provide funding to Scottish local authorities for sponsorship of trainee food safety auditors and the new qualification pathway to the higher certificate in food control.

In relation to planning—and we have discussed this in depth previously—we are continuing to engage closely with COSLA and Heads of Planning Scotland to understand the pressures on planning services. Action to strengthen the future pipeline of skilled planners entering and being retained in the planning sector in Scotland is a high priority for us, and it is a core part of the delivery of national planning framework 4. There are a number of actions, which we talked about just a couple of months ago. Those actions are ongoing, but we recognise the challenges in that regard.

The third area—which, again, is outwith my direct portfolio—is building standards, and again, we are working closely with local authorities on that. Given that one of the challenges in the building standards sector is the profession's profile and esteem, there has been a lot of focus on that aspect. One specific piece of work involves the ambassadors network, which is helping promote job roles and improve the profession's attractiveness. As a result of the new modern apprenticeship pathway, which was introduced just last year, apprentices are now starting to come through.

We are taking action in those three areas, working in partnership with local government. We cannot simply take forward that work on our own—we have to work in partnership, as the committee would expect.

The Convener: Minister, in relation to the fiscal framework, you mentioned the accountability and assurance framework a couple of times. It seems that you are putting a lot of weight and importance on its development. Are you in a position to give us an indication of what you want to see in that framework, in terms of the relationship between COSLA and the Scottish Government?

Joe FitzPatrick: It is one of the workstreams that we agreed to take forward in the Verity house agreement. It is a partnership, so we need to ensure that that is the case.

Ultimately, I would see an accountability and assurance framework as sitting alongside the fiscal framework, to give assurance not only to the Scottish Government, but to the Parliament, in those areas in which we have shared accountability. That will be important in respect of the Accounts Commission's work. That work is ongoing, and given that it is a partnership, I would not want to be too prescriptive.

The Convener: Thank you for coming along to give evidence, minister. I thank Ian Storrie, too; it was helpful to get the background and to hear about the process involved in the fiscal framework and the complexity that you have come up against over the months in which you have tried to develop it. There is a sense that, this time next year, we will—we hope—be in a different position.

Given that, at the start of the meeting, we agreed to take the next two items in private, I now close the public part of the meeting.

11:27

Meeting continued in private until 12:04.

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