



OFFICIAL REPORT  
AITHISG OIFIGEIL

# Finance and Public Administration Committee

Tuesday 1 March 2022

Session 6



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**FINANCE AND PUBLIC ADMINISTRATION COMMITTEE  
8<sup>th</sup> Meeting 2022, Session 6**

**CONVENER**

\*Kenneth Gibson (Cunninghame North) (SNP)

**DEPUTY CONVENER**

\*Daniel Johnson (Edinburgh Southern) (Lab)

**COMMITTEE MEMBERS**

\*Ross Greer (West Scotland) (Green)

\*Douglas Lumsden (North East Scotland) (Con)

\*John Mason (Glasgow Shettleston) (SNP)

\*Liz Smith (Mid Scotland and Fife) (Con)

\*Michelle Thomson (Falkirk East) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Paul Bradley (Scottish Council for Voluntary Organisations)

Mirren Kelly (Convention of Scottish Local Authorities)

David Melhuish (Scottish Property Federation)

Eileen Rowand (Chartered Institute of Public Finance and Accountancy)

Alastair Sim (Universities Scotland)

**CLERK TO THE COMMITTEE**

Joanne McNaughton

**LOCATION**

The Robert Burns Room (CR1)



# Scottish Parliament

## Finance and Public Administration Committee

Tuesday 1 March 2022

*[The Convener opened the meeting at 09:30]*

### Resource Spending Review Framework

**The Convener (Kenneth Gibson):** Good morning and welcome to the eighth meeting in 2022 of the Finance and Public Administration Committee. The only item on the agenda is two evidence-taking sessions for our inquiry into the Government's resource spending review framework. The evidence that we gather will inform our response to the Scottish Government's consultation.

First, we will hear from Mirren Kelly, chief officer, local government finance, Convention of Scottish Local Authorities—who I am delighted to say is attending in person—and, attending virtually, Eileen Rowand, executive director, finance and corporate services, Fife Council and Chartered Institute of Public Finance and Accountability directors of finance. I welcome them to the meeting and thank them for their written submissions.

I understand that the witnesses have no opening statements to make, so I will move straight to questions, which will obviously relate to the submissions.

I note that, with regard to spending, COSLA's submission says:

"With employability funding especially this has been notified late in the financial year and limited to spending by 31st March."

Clearly, COSLA is frustrated at getting notification of resources late in the financial year, but how much of that is actually within the Scottish Government's control? Are Barnett consequentials the reason for the late notification? Is it a combination of the two things?

**Mirren Kelly (Convention of Scottish Local Authorities):** On the specific example of employability funding, the Scottish Government knew about that at the start of the financial year, as far as I am aware, but notification was late. Since then, we have been given the flexibility to carry that funding forward into 2022-23, which is very welcome and enables us to make that critical investment in employability.

However, late notification of that or other funding means that resources cannot be used in the most effective way. It presents challenges for us in planning and working with our third and independent sector partners to effectively design and deliver services that best meet need and achieve the intended funding outcomes.

**The Convener:** Was any explanation given as to why the funding came so late in the financial year?

**Mirren Kelly:** Not to me. I am not aware of the detail of that.

**The Convener:** Ms Rowand, do you have any understanding of why that was the case? Have you tried to find out from the Scottish Government why that funding arrived so late? I would have thought that, with something so essential, you would be champing at the bit to obtain those resources.

**Eileen Rowand (Chartered Institute of Public Finance and Accountancy):** I am sure that we have been. Just standing back from the issue of funding being announced late, though, I think that the resource spending review framework will give us an opportunity to have a level of known funding over a period of time, which will allow us to plan. Obviously, we have received funding late in the day in the past, but it is important that we focus on moving forward and getting greater certainty. If we can work through the spending review and be certain of figures for future years, we will be able to plan for the collective outcomes that we want to achieve.

**The Convener:** I agree, as I am sure everyone else would, that certainty is important, but as the Scottish Government does not always have certainty with regard to its own funding it is difficult to pass certainty on. Do you not agree?

**Eileen Rowand:** Most definitely, but, as Mirren Kelly said, there have been instances where there has been some certainty with regard to funding and it has taken us some time to decide how to use it. If we can collectively move past that and agree in advance when spending will occur, that will certainly help us to move forward. I know that the situation is challenging, but we all want to be able to plan and respond when there is uncertainty.

**The Convener:** Other members might want to focus on that point a bit more.

With regard to the overarching priorities in the review, you mention

"Meeting child poverty targets ... Addressing climate change"

and

"Securing a stronger, fairer, greener economy",

and then go on to say:

“There is ... very little comment ... on the data and drivers behind these three priorities”.

What data and drivers do you feel should have been included?

**Mirren Kelly:** There are other data sources such as the Scottish multiple—*[Interruption.]* I always get that in the wrong order.

**The Convener:** I get tongue-tied myself. These things happen.

**Mirren Kelly:** The Scottish index of multiple deprivation would give a good indication of child poverty, in particular, and key issues in that respect, and there are also significant amounts of employability and economic data that could be used to inform some of the priorities.

For me, the focus on the spend on health and social care did not seem to link with the three key priorities—and I would point out that that is the projected demand-driven spend rather than the investment that might be put in at the front end to prevent that spend from being needed. As a result, we need to look at evidence of how we can improve health.

Those would be the key areas of evidence to look at in informing the resource spending review in the longer term.

**The Convener:** That was very helpful.

In your submission, you say:

“there is no clarity on what a National Care Service will look like or deliver.”

What would you like it to look like and deliver?

**Mirren Kelly:** We will all agree that there should be significant investment in social care to support our communities, but as for how that might happen, that opens up different opportunities. If the level of investment that is being discussed can be utilised immediately, there are already structures in place to do just that. Instead, we face the potential risk of having to change structures, which would delay any improvements to services.

**The Convener:** Did you want to come in, Ms Rowand?

**Eileen Rowand:** Yes, and probably with a similar point. We all know the pressures that are on social care, given the ageing population, and there have been increases in spending in that area. However, as Mirren Kelly has suggested, we are dealing with a lot of demand failure, so we need to shift the focus to health and wellbeing and to trying to keep people well at home longer, investing in housing, supporting children and families and other such core areas. There is a danger in looking solely at national care services as the solution. We need to take a wider

perspective and appreciate the role of local government and other partners in that respect.

**The Convener:** The COSLA submission also says:

“The framework also fails to recognise the impact of structural change on current services and the resource implications of establishing new structures”.

What are those resource implications?

**Mirren Kelly:** A lot of that will depend on what the national care service looks like and what it means, but we might be talking about, for example, harmonising terms and conditions across a number of workforces, information technology infrastructure, governance structures and potential duplication of support services. There is a risk that all those existing foundational layers will be duplicated or subject to change that will just increase costs, instead of existing structures being invested in.

**The Convener:** Do either of you have a ballpark figure for the additional resource required to deliver that change?

**Eileen Rowand:** I think that we are really talking about the opportunity cost that comes with structural change. Setting up a new organisation is disruptive, and the focus on having to make such a change actually detracts from a focus on making improvements, given the limited capacity and the resources required in that respect. We are not necessarily talking about pounds and shillings—it is more the disruption that is caused.

The Feeley report sets out high-level figures for the additional resource that is required, but we also know from work that has been done in the area that more work is needed. We can think about the increased cost in an area, but we also have to understand the impact on the resources that are left and what that will mean for core services.

**The Convener:** If there are additional resource implications, one would expect that to be funded from core budgets. I am sure that you would agree that the Government does not want to undertake structural change for the sake of it. COSLA may not agree with all aspects of the proposals, but I am sure that it would agree that the reason for the Government’s measures is to improve the service overall in the long run. The Government may even be of the view that, while there may be short-term disruption, it might be worth it for long-term improvements. Is that not the view that it has, and is that not why it is going down that road? Why else would the Government be doing that if it did not believe that the measures would bring improvements in the long run for the people who require the services?

**Eileen Rowand:** I am sure that that is the case. We are just highlighting the point that, in the short to medium term, the change will be disruptive, and there will be a change in focus. It is clear from the framework that has been published that the level of resources that will be available to the Scottish Government over the medium term will be very challenging. If resources are going to be redirected to one area, they will have to come from another area, or efficiencies and redesign will have to happen. Within that context, we want to ensure that money is spent wisely—as does the Scottish Government, I am sure.

**The Convener:** Okay—thank you. I think that other members will want to probe that point a bit further.

One of the things discussed in COSLA's written submission, which is a real issue for the committee and has been for a long time, is the need for

“a genuine focus on preventative approaches”.

I think that is critical. You also say that,

“With ever greater levels of funding being directed toward the NHS”,

there are other ways to tackle child poverty. You mention housing, education and employment.

Surely the politics of that is a difficulty. Say, for instance, that the Government decides that you are absolutely right and it agrees 100 per cent with what you do, and that the next time it gets a Barnett consequential it will give a quarter of it directly to local government, rather than putting it all into the national health service. Surely the difficulty is that the media and Opposition politicians would then come down on the Scottish Government like a ton of bricks and denounce it for underfunding the NHS exactly at a time when there are huge waiting lists, blah, blah, blah. Surely the issue is that, while everybody knows—at least in my view—what has to be done, sometimes the politics gets in the way, given the hostility of the media. Some people might wonder whether it is worth it, in that we cannot necessarily tell the public what changes are going to be delivered over five or 10 years, as people may say that, if the Government puts money into the NHS now, they might not have to wait so long for their operation or whatever.

How do we square that circle with what we believe might deliver better in the long run? You speak about the NHS basically “fixing the problem” rather than actually “solving the problem”. How do we do that a time when we do not have a huge amount of additional resources? If there was lots of money for both local government and the NHS, we could do it, but how do we actually manage that difficult political situation?

**Mirren Kelly:** That is exactly the challenge that we all face. One of the steps to take forward is to have that open and honest discourse with the public to increase the understanding of why you might need to invest in different parts of the whole system. That goes back to some of the Christie principles and the whole-system approach of preventive spend. It is perhaps a question of reigniting that. I do not dismiss the challenge, but I think that the measures need to happen if we have committed to improving outcomes as needed.

One potential approach is to focus on, or increase discussion about, the wider determinants of health that contribute to a healthy life for all of us within our communities. It is not just local government that contributes to that, although we are a key player. Improving housing, education, transport and infrastructure in accordance with a rights-based approach, and recognising structural inequalities, could lead to significant health improvements. That is in the long term, however: we would not see the benefits immediately and I agree that that is part of the challenge when it comes to such decisions.

09:45

**Eileen Rowand:** I agree totally that it is very challenging. It would be different if we had increasing resources, because it would be far easier to switch resources to different areas for preventative purposes.

Our council faces a dilemma when we do our medium-term financial planning. Like the Scottish Government, we consider the resources that we expect to receive and then the pressures that will come through, and it is quite apparent that we cannot afford the funding needed for all those pressures. We then have to go back to the drawing board to work out how we direct resources to where we will achieve the best outcomes.

The challenge for us, working in the public service, is that we have a duty and responsibility to try to achieve what is best for citizens. To do that, we need to make informed decisions, using evidence, to shift the resource so that we do not continue to spend the bulk of the money on treating people when they are ill. Instead, we have to go further upstream and invest more in affordable housing and keeping people active, and we need to look at how communities can support people. It is very difficult; I recognise that.

**The Convener:** One of the difficulties is having to disinvest from areas that are, perhaps, not so effective and switch resource. At a time when resources are not increasing, difficult choices have to be made.

I have one final question, which is about how priorities link in with the national performance framework. The submission from COSLA says:

“There needs to be an improved mechanism for assessing how we are reaching the National Performance Framework goals.”

What could, or should that mechanism look like?

**Mirren Kelly:** I would like to see much clearer links between the budget and the national performance framework, so that we can see where the spend is going towards those outcomes. That would help all of us. There have been calls to use the human rights-based budgeting approach, which I think could assist and be a key mechanism.

**Eileen Rowand:** I recognise that that is challenging. There are more than 80 indicators in the framework, and we probably measure what can be measured, but I agree with Mirren Kelly that the challenge is in how we tie the allocation of resource more to the outcomes that we want to deliver.

Certainly, it is not easy, but if we look at where our spend has been allocated in recent years and link that to the national performance framework, that throws up some questions about whether resources are being directed to the right places at a national and local level.

**The Convener:** I will now open up the session to colleagues around the table.

**Douglas Lumsden (North East Scotland) (Con):** I want to dig a bit deeper on the preventative approach that we have spoken about. I keep banging the drum, but I always feel that the best early intervention and prevention is done at the local government level. I get what the convener said. It is often difficult to move budgets, but health spend does not always have to be spent on the NHS—money for a health outcome could be spent in local government, for example. The same applies to justice spending. How does local government make the case for that? Could more data be provided that shows the outcomes to demonstrate to the Government that money should be spent in a certain area to save money on health and justice later?

**Mirren Kelly:** That is part of the challenge. A lot of the long-term changes that we try to address relate to structural inequalities. Tracking benefits through the system over people’s lifetimes is definitely tricky.

There may be value in considering all the reporting that is done. Local government submits lots of reports to the Scottish Government, but they go to different departments and areas. They are not necessarily all brought together and able to be analysed in that way. I know that the national

performance framework will be reviewed shortly. That might be an opportunity to look at the existing data, where it is going and how we can better pull it together in order to demonstrate what is achieved and what the most effective use of our limited resources would be.

**Douglas Lumsden:** Do you think that COSLA could push ahead with that? The convener is right—everyone who comes before the committee says that they want more money. It would be great if the Government could give everyone more money, but there is a finite pot. It is important to demonstrate that investing in local government will produce a return later on.

**Mirren Kelly:** Yes. We have said that we would like to work with the Scottish Government on that, and I hope that we will be able to take that forward on a wider scale, through looking at the current data and how it is used.

**Douglas Lumsden:** I think that there is a strong case but, to be honest, it needs to be made a little bit better. Ms Rowand may want to add something on that.

**Eileen Rowand:** There has been a study that looked at the reduction in local government spending in England and the adverse impact that that has had on life expectancy. I think that it was in *The Lancet*; Mirren Kelly probably knows a bit more about it than I do.

I suppose that we also need to think about trying to use national research that has been done elsewhere, which looks at the positive impact that investing in communities—parks, paths, town centres, youth work and children and young people—can have. We need to work collectively, together with the Scottish Government, so that there is a shared understanding.

Like you, I would advocate that, when we receive health consequential, there should not be a presumption that they will be spent only on health. It is important that we look at health and wellbeing and at investing some of that resource in preventative spend.

**Douglas Lumsden:** Do you feel that it might be possible to demonstrate the effects of that approach to health spend, for example? I hate to use the term “ring fencing”, because we want to get away from that. Nonetheless, could you invest in health at the local government level and keep that investment separate so that it can be identified, in order that the Government can then track that through and see what the savings might be later on?

**Eileen Rowand:** It is difficult, is it not? Sometimes it is hard to evidence the benefit that such spend has from one year to another. As Mirren Kelly said, it is more of a longer-term



approach. It involves having some faith in what you believe, as well. If we want people to stay healthier at home, they have to be fitter and we have to provide them with opportunities in that regard. We have to ensure that communities can support them in that respect. We will not always have the evidence for that. We will be able to do some work to demonstrate the effect, but it will be over a period of time.

**Douglas Lumsden:** I go back to what the convener said about paying for somebody's operation. Surely the best thing is for that person not to need the operation in the first place, and to invest in leisure facilities at the local government level so that people are healthier and there is less of an impact on the health service later. I know that it is difficult, but if there was a way of trying to demonstrate that, it would be easier for the Government to move some of that spend to a more preventative approach at the local government level. Anything that you could do on that would be really worth while.

**Daniel Johnson (Edinburgh Southern) (Lab):** Perhaps unsurprisingly, I will pick up on comments from both the convener and Douglas Lumsden.

I am most interested in the answers that you submitted to the committee's second question. The convener asked you a little about the evidence that you alluded to in your answers. A number of comments and submissions have questioned whether the three top priorities that have been identified are sufficient. I do not think that anyone has questioned whether it is right for those priorities to be there, but questions have been raised about whether they fully capture the picture. In particular, with regard to the third priority, which is

"• Securing a stronger, fairer, greener economy",

that one bullet point is doing an awful lot of work.

If you were to add one or two bullet points to that list of priorities—obviously, one would not want to add dozens—what would they be? Likewise, I would be interested to hear what you think an analysis of the drivers might look like, to supplement what you have said about the use of the SIMD as a data source.

**Mirren Kelly:** I cannot answer the question on priorities, because I cannot pre-empt COSLA's formal response, which will go to leaders for agreement at the end of the month. I agree that there might be things that could be covered in that list. As you say, the priorities as they stand cover quite a lot of ground, but I cannot pre-empt our position on that.

With regard to the use of drivers for public spending, we have said that some of the data is not pulled together very well, and this process is

surely one of the opportunities to address that. We know that there is a lot of data out there, but that section of the framework referenced only a couple of key data points rather than the breadth of information that already exists.

There are opportunities in the spending review itself to pull together data and do some of that analysis, which would—we would hope—help to inform everyone on the best use of resources in order to achieve the priorities that are decided on in the end, whatever they are.

**Eileen Rowand:** In our submission, we highlighted that the priorities are aligned with COSLA's priorities. I took the opportunity to look at the list in the context of my own council. One issue that came through, which was quite unexpected, was the role of local communities.

I go back to my earlier points. If we want people to improve their health and wellbeing, it is really important that we have strong communities. I am sure that, as Mirren Kelly said, COSLA will produce a submission at the end of the month, but we might want to add something on that aspect, along with something on the importance of the workforce.

**Daniel Johnson:** I am looking again at COSLA's answer to question 3, which talks about the need for recognition of the long-term pressures on public services. A comprehensive spending review, which is essentially what this process is, is not about simply mapping out how you intend to spend money over multiple years; it is also a point for reflection on how effective your spending has been in the past.

I wonder if you are saying that there is insufficient recognition not only of the role that local government plays in making things better across the three priorities but of the fact that underfunding of local government is making those things worse. Is that a point that you want to make? If so, are there any particular examples that you want to pull out with regard to where the financial situation in which local government finds itself makes those things better or worse?

**Mirren Kelly:** Absolutely—you summarised that very well. One of the key areas of pressure that is recognised as one of the drivers of public spend in the framework itself is the workforce and workforce costs. The workforce is a resource, and it delivers all these policies. The people in the workforce are the ones on the ground who are making the changes.

Eileen Rowand will correct me if I have got this wrong, but I think that between 60 and 70 per cent of the local government budget is spent on our workforce. Where we see additional asks and additional policies introduced, even if they are fully funded, there is a downward pressure on our own

workforce if our core budget is not then sustained to enable the inflation and pay uplifts that we see. That presents an issue not only for capacity but for morale and for local economies. Local government is often the biggest employer in a local authority area, so our staff and our workforce are big drivers of the local economy. That means that the pressure that we face on our core budget has quite a lot of knock-on implications, and that is a key point that is not always addressed.

**Daniel Johnson:** Does Eileen Rowand want to add anything?

10:00

**Eileen Rowand:** Yes. If we look at the funding position for local government over the past seven or eight years, we see that the local government share of the block grant has gone down from 34 per cent to 28 per cent. At the same time, we have seen a significant increase in investment in areas such as education and social care. That has gone up by more than 20 per cent for them, which is obviously positive, but it is adversely impacting on areas such as roads and transportation, culture and leisure, and economic development and planning.

To link back to the question, I suppose that it is about looking at the impact of budget decisions on core service delivery and how sustainable that is. I have just recently taken my council through its budget, and I am questioning its future financial sustainability, given where we have come from in recent years and the challenges that we will face going forward. It is very challenging.

**Daniel Johnson:** Some of the responses to the consultation identify another aspect, which is how well money is spent. Is another element the principles by which the decision making is carried out? “Subsidiarity” is a bit of an obscure word, but do you think that at least some consideration should be given to ensuring that decision making happens as close as possible to the point at which it takes effect? Would COSLA like to see that being taken into account in the review?

**Mirren Kelly:** Yes—absolutely. That goes for the development of policy, as well, not just the decisions on spend. In developing services that will really work for local communities and achieve the aims, we need to use the principle of subsidiarity as well.

**Daniel Johnson:** Does Eileen Rowand have any final comments before I hand over to colleagues?

**Eileen Rowand:** The framework document outlines an approach that looks to empower individuals and communities to integrate service provision and prevent negative outcomes. There is

a lot in that approach that I would agree with. The difficult part is getting into the detail—the how. We have already alluded to the question of how we can shift resources to prevention. We believe that local government plays a major role in that.

**John Mason (Glasgow Shettleston) (SNP):** There is a lot of material to consider in the evidence. I have noted down some comments that have been made by witnesses, but not always who made them. Some might be from you, but some might not. Some witnesses have commented that the whole review is too high level and that there is not enough detail in it. Do you agree? If so, what else should be in it? How much more detailed should it be?

**Mirren Kelly:** It is quite high level, but that does not mean that we cannot engage with it to make points and to try to develop areas. I am aware that this is the first spending review that we have had for a number of years, so there are learning opportunities if we find that it has been at too high a level. That said, I do not feel that I can pre-empt what will come out of the spending review and the level of detail that that document might provide.

**John Mason:** Are you okay with that, Ms Rowand?

**Eileen Rowand:** Yes. The priorities are high level, but I understand why that is the case. I suppose that the Scottish Government’s far wider national performance framework sits behind it. We have those priorities, but we also have the challenges that are set out in the framework document. The real challenge will be how to square that circle. It will certainly not be easy and there will be things influencing the spending review that might not all directly tie back into the priorities. It is not an easy exercise.

**John Mason:** Another theme that has been highlighted, certainly by COSLA but also by other people, is multiyear funding and having a bit more funding certainty over five years, say, to start with. The idea came from not just COSLA but the Scottish Council for Voluntary Organisations, much of whose funding comes from local government and from whom we will be hearing later.

How would more certainty in that area make a difference? I am attracted to the multiyear model, but it makes things a bit inflexible. If Glasgow City Council awarded money to a local group or charity for five years and halfway through that period it was found that the group was not performing, there would not be not much room to change the situation. Do you have thoughts on that?

**Mirren Kelly:** Absolutely. A key point in that respect is the knock-on effect of single-year budgets throughout the whole economy, which potentially means that organisations are not able

to develop the most effective solution, especially if they are given money that has to be spent in a particular year. Even if they are informed about that at the start of the year, they might then need to consult communities and then design, tender and commission the services. That can create challenges.

As for longer-term funding for the third or independent sector, organisations absolutely need to build in sensible performance indicators or agree the outcomes that they seek to achieve as well as review points, if that is appropriate to the particular service that they are considering in the community.

**Eileen Rowand:** Local government most certainly desires multiyear funding. It is extremely hard to plan over the medium term when one does not know what resource one will receive in year 2 or 3. I have undertaken a scenario-planning exercise in my council, and it would certainly be easier if I knew what the figures for years 2 and 3 were likely to be instead of my having to make assumptions based on economic estimates and what I think will be the Scottish Government's priorities.

We, and our directors of finance, have discussed the matter. If we had figures for a three-year period—and even indicative figures for the two latter years—that certainty would allow us to plan far more effectively even if it meant resource reduction. As Mirren Kelly has said, we would be able to take better-informed decisions earlier on the options that we could explore, which would lead to more effective service delivery.

**John Mason:** That leads quite well on to my next question. I will start with Ms Rowand this time.

One of the submissions that we have received says that, in taking the five-year approach, the Scottish Government would not have to spend all its money now but could save some and put it into reserves to give more certainty towards the end of the five-year period. Following on from what you have just said, I have a feeling that, although that would give more certainty, local government and others would not be happy if we held a lot of money back.

**Eileen Rowand:** You would probably be limited in the level of resource that you could hold back anyway. Councils certainly hold reserves, because we are able to do so, but we use them for one-off shocks to deal with things that we have not planned for. We have a responsibility to consider how to spend the money that we get from the taxpayer in delivering the required services.

I would receive a bit of criticism in my council if I tried to cut services when there was no real need to do so because funding was available. Indeed, I

am put under a bit of pressure to ensure that we effectively use the resources that are at our disposal. I would advocate holding money back just in case, because we do not have enough money and we have to ensure that we use it as effectively as we can.

**John Mason:** Mirren Kelly, do you agree?

**Mirren Kelly:** I do. The key point is that reserves can be used only once. Even if years 4 and 5 turn out not to be as optimistic as whatever assumptions are put in place, the use of reserves will only minimise or slow change rather than address the long-term fact that there is less funding available, which brings in the sustainability issue.

**John Mason:** One point that has come up many times—in fact, you have mentioned it yourself—is the concept of bringing in new policies and looking at what is already happening. Given that it looks like we will be fairly tight for money over the next few years, would you go so far as to say that the Scottish Government and local government should not make any new commitments or policies and should focus instead on what they are doing at the moment and try to do it as well as they can? Should we pull back on new initiatives?

**Mirren Kelly:** I think that, before new policies are introduced, we absolutely need to take the time to consider what can be achieved just now and what is currently being done. We have an opportunity to consider whether there are things that national Government and local government are currently committed to doing that could be used to free up resources or opportunities to do something different. We could jointly consider that. However, at the moment, the struggle that we see in our budgets is the pressure on our core, and the impact of that on other services, given how much is currently directed. There are risks there.

**John Mason:** Eileen Rowand, all political parties make promises at elections—both at council level and at a national level—and we all want to do new things. Do you think we should cut back on the new things?

**Eileen Rowand:** I think so. I would prefer to say that you can deliver new policies all the time, but I think that the issue goes back to what Mirren Kelly said about affordability over the medium term. The level of resource that will come from the United Kingdom Government to the Scottish Government in 2024-25 is likely to be tight. We are going to face pressures around inflation, pay and issues such as construction costs—the inflation rate in construction is fairly scary. We have to deal with those core issues before we start thinking about what we can afford in terms of new policies.

As Mirren Kelly has said, we have to think about what we can do with our existing resources and

direct some of those policy initiatives. That brings us back into the territory of the engagement between local government and the Scottish Government. We need to think about how we can work together to deliver on our shared ambitions. The position that we are going to be dealing with in the next two to three years will be extremely difficult, and we need to ensure that we take wise decisions.

**John Mason:** You mentioned that the share of the total budget that local government gets has fallen from 34 per cent to 28 per cent. Would you and your colleagues argue that we should choose a figure—perhaps 34 per cent—and fix it permanently as the local government share?

**Eileen Rowand:** That can be looked at in the fiscal framework, and the Scottish Government and local government will engage in on-going work in that regard. I am trying to highlight the fact that, if you look back, you will see an erosion of local government funding, and that is certainly having an impact on things such as roads, culture and leisure and the other services that we provide. There is an opportunity to consider a rules-based framework that can tie funding to a certain level, but that is something that would have to be worked through jointly in discussions on the fiscal framework.

**The Convener:** When I was first elected to the Scottish Parliament in 1999, local government got a higher share of spend than the national health service, but, of course, the ageing population has largely put paid to that. A point that I would make about having a set proportion for local government or for anything else is that the Government can decide what it considers to be expenditure in that particular remit. I realise that that is the policy of at least one party, but there is always a way of getting around things.

**Ross Greer (West Scotland) (Green):** On the back of her response to the convener's initial questions, I would like Mirren Kelly to expand on a couple of points in COSLA's written submission.

You have been critical of the lack of data on and drivers for the key priorities in the RSR. I presume that the data and drivers are the indicators in the NPF and the data that underpins them. Is your criticism about the lack of clarity over whether that is indeed the case or about the indicators and the data that underpins them in the NPF being insufficient to fulfil that role?

10:15

**Mirren Kelly:** There are a lot of challenges with the NPF indicators. For some of them, the data sources lag behind by several years, which makes it difficult to track the progress of outcomes. That is one of the things being considered for inclusion

in the review to ensure that we have the most useful data in that respect. That would be helpful for all of us.

As for the consultation on the framework, the section on the evidence highlights only one or two drivers. Our concern is that, if other key drivers have not been set out or if there is no indication of the Scottish Government's approach in other areas, that shapes people's responses or how fully engaged they are in responding to the consultation.

**Ross Greer:** COSLA's submission also makes some criticism of the NPF goals and the need to improve the mechanism for assessing whether we are reaching them, saying that that should be integral to the spending review instead of

"some high-level numbers which are limited in their usefulness"

being set out. Can you clarify which high-level numbers you are referring to? Again, is that a criticism of the NPF indicators?

**Mirren Kelly:** That comment was intended to show the lack of joining up between the multiple strategic positions that are being taken. The issue is how the budget and the NPF—and sometimes the programme for government—link together and feed into each other.

**Ross Greer:** Again, you mention that the framework as a whole does not reflect the reality of the past 10 to 12 years and the pressures that the public sector has faced over that period. Were you looking for a framework that better reflected that? Is COSLA looking for more about the narrative and the rhetoric to acknowledge that reality or do you think that some specific points are missing that would have better reflected that? In other words, is it that you do not feel that the Government has acknowledged that reality, and are there specific changes that you would make to better acknowledge it in the review?

**Mirren Kelly:** Like some other respondents to the consultation, I think that the immediate impact that we face in relation to the pandemic, rising inflation and so on could have been more explicitly acknowledged up front.

One of the key things that we are feeling is a compounding pressure on local government and its services; indeed, we are not the only part of the public sector that feels that. That could have been better recognised in the framework, and I hope that the issue will be picked up as a result of the responses to the consultation and in the discussions that the Scottish Government is having on the matter.

**Ross Greer:** Eileen, you have mentioned that, like every other local authority and, indeed, the Scottish Parliament itself, you have just gone

through your budget-setting process. How much of a role does the NPF play at council officer level in that process? Are the NPF indicators part of your day-to-day discussions when you prepare options for councillors?

**Eileen Rowand:** We try to ensure that the budget does not drive policy decisions. Although we develop our planning documents in the local authority, we very much ensure that they align with the NPF. We have, for example, the plan for Fife, which looks at our priorities, and as I have already said, those priorities are closely aligned with the priorities in the RSR framework document.

As part of the budget process, we look at where there might be opportunities for savings and opportunities for investment. There is close dialogue with local members on their own priorities, and they are guided by the planning documents that have been agreed. We try to ensure that members' decisions align with our plans, which are influenced by the national performance framework. There is close alignment between what local government is trying to deliver and what the Scottish Government is trying to deliver, and local government plays a really important role in the different categories in the national performance framework.

I hope that that helps. I do not like budget to drive policy—I like it to be the other way around—but sometimes it comes down to the numbers at the end of the day.

**Ross Greer:** Absolutely.

In preparing options for the budget or questions about a draft as it stands, has a councillor ever directly referenced the national performance framework indicators? Have you ever been asked how something contributes towards a certain indicator or is the discussion at local level entirely based on the strategy for Fife that you have just mentioned? I am not criticising councillors or council officers, by the way—I am just trying to get an understanding of whether the NPF informs day-to-day discussion.

**Eileen Rowand:** What informs day-to-day discussions are the performance indicators that we examine with our members not just when we consider the budget but throughout the year. We look at how we are performing, and the fact is that many indicators in the national performance framework are ones that we look at locally and which we consider as business as usual in our performance reporting. In the past and in different budget cycles, we have put performance information in front of members so that they understand where we are spending money and what we are doing with it. We try to make that link.

In the past couple of years, our budget-setting process has been a bit different, because we have

been dealing with the pandemic and have had a high level of one-off money. I would not say that the past couple of years have been normal, but there is always a commitment to consider performance, what we are doing with the money and what we are achieving when we take decisions on the budget.

A couple of areas that have been influenced this year include our spending on parks and roads, after concerns about our performance in that respect came back from the public. That has led to our increasing investment in them, using the one-off money that has been at our disposal this year.

**Michelle Thomson (Falkirk East) (SNP):** I have a couple of questions for you, Eileen. A number of times, the committee has had a discussion about the benefits of multiyear versus single-year budgeting. In principle, everyone understands that issue. How aware are you of the challenges that the Scottish Government has had because of its inability to undertake multiyear budgeting?

**Eileen Rowand:** When I take a budget report, I look at the position for the UK Government and for the Scottish Government. For the past number of years—I do not know how many—we have done medium-term financial planning, which has required that I make some assumptions on the level of funding that will come to us. Audit Scotland encourages us to do such planning, even if the level of resource is unknown.

I am aware of the Scottish Government's position. I know that it now has figures over the medium term, but I realise that that has not always been the case, which has hindered medium-term financial planning. However, I advocate that, even without the figures, we can always do some kind of planning as long as the figures in years 2 and 3 are indicative. That allows the Scottish Government to indicate where the priorities are and where it is likely to spend money.

**Michelle Thomson:** I suppose that the framework is attempting to do that as we all move beyond a difficult financial time.

One of the committee's other concerns is the general lack of understanding of how the budget process works for the Scottish Government and the impact that it has on everyone else's budgets. You are clearly across that and you will understand that, for example, the final figures came in literally at the 11th hour—the night before stage 3. However, how clearly is that understood by your colleagues in CIPFA and the council? I think that it was the finance secretary who said that it is like trying to land a 747 on a postage stamp, which describes it well. What is your perception of how clearly the process is

understood across the board among your colleagues in CIPFA and the council?

**Eileen Rowand:** I take two or three budget reports to my council in a year. I outline the position at a UK Government level and what information the Scottish Government has at its disposal; we make that very clear.

I am in a process with my council in which I am asking it to make plans. We start the process in March and plan for the following February and we are basing that on the kind of advice that I am giving to the council about what the level of resource is likely to be. We obviously flex that, and once we get the Scottish Government's budget, we flex it again when there are last-minute decisions. The councillors are very aware of that changing position and there is a reliance on the section 95 officer to prepare them for that. I hope that that responds to your question.

**Michelle Thomson:** Yes, it does. Going to your accountancy background, I have asked on a number of different occasions whether data on how much time is spent on the process—you spoke earlier about opportunity cost—is collected when we go through that curmudgeonly process? Doing projections that are promptly zapped is often a waste of time. That is one area where I would be looking to note how many days are being used in order to illustrate inefficiencies, when it is all changed at the 11th hour. Does CIPFA or COSLA collect that data?

**Eileen Rowand:** I think that that is probably more qualitative data. As with the financial planning that takes place, I am making assumptions about what I think the level of funding will be for the next two to three years. I am guiding my local authority through a process that allows it to develop plans. In the past two or three years, we have not been that far away from the figures that have come out. However, we have not had the figures for years 2 and 3, which is where there is difficulty and an opportunity cost.

With the financial challenge that we will be facing, it is important that we are able to take the time to plan for that, because we will have to redesign services and we need a period of time to get into that process. Multiyear settlements would allow councils to create their financial plans with a greater degree of certainty. In my council, I am looking at scenarios just now and am asking officers to bring proposals forward. Those may not be enough and they may be too much. We could be more focused on what we are asking people to do if there was more certainty on the resources in years 2 and 3.

**Michelle Thomson:** I think that that message has come through clearly.

Within COSLA, how commonly understood is the budget process that the Scottish Government goes through? For example, do you understand that there are 11th-hour changes and that those have an impact on financial flow-throughs?

**Mirren Kelly:** Yes, absolutely. It can be very hard to keep track of that. The past two years have shown a greater variation than others as last-minute additional consequentials have come through from the UK Government with the Covid spend. For instance, this year the £80 million funding for local authority economic recovery was very much an 11th-hour change. We sought to ensure that our governance processes were in place to enable discussions with the Scottish Government about how it could enable that change to get into the local government finance order, which must also be lodged in Parliament.

10:30

**Liz Smith (Mid Scotland and Fife) (Con):** Ms Rowand, when you talked about the opportunity cost of developing a new social care system, you said that we had to bear in mind not just the cost of introducing a new system but the fact that resources might have to be taken away from elsewhere. Can you expand on that? Are you saying that any new system will create an additional administrative burden or do you foresee some of the social care services that are provided on the ground being changed or removed?

**Eileen Rowand:** I am probably basing my comments on my experience of moving to a national police service and national fire service—I was involved in work on the latter. There is a huge call on management capacity in planning for and transitioning to such a change; there is only so much capacity for change in an organisation, and it also diverts attention from service improvement and other such changes. There is also an issue with providing stability for the workforce if the management is focusing elsewhere and potentially not on where it needs to focus.

**Liz Smith:** We have heard not in the committee but in Parliament about the concern in local authorities—not just Fife—with regard to the huge potential cost of changing to a national care service. If such a move were to deliver far better results, a case could obviously be made for it, but what we have heard in Parliament is that that might be difficult, particularly given the difficult financial circumstances. As finance director for a council, do you feel that there is sufficient evidence on the provision of social care to prove that this new national service might be better in the long run?

**Eileen Rowand:** That is quite a difficult question. The aspiration is to have a national care

service, and I suppose that, with regard to how it will be delivered and how it will fit with local decision making, the devil will be in the detail. I understand the desire to have such a service and realise that there will be increased investment, but COSLA's position is that, had that increased investment been used for existing structures, we might have got change quicker without the disruption of a move to a national care service. Obviously, though, that is a political decision.

**Liz Smith:** Indeed, and thank you very much for those helpful answers.

Ms Kelly, given what has been said, am I right in thinking that COSLA's position is that some of the change to a national care service could be extremely difficult as far as the current services are concerned?

**Mirren Kelly:** As Eileen Rowand has said, we think that, if there were any significant additional investment available it could be put into the current systems and structures. It is not that we cannot see areas for improvement—we absolutely want the system to be improved—but part of the challenge that we have faced in social care has been in dealing with the constrained funding that has been forthcoming for the past 10 or more years. That pressure has built and built, and there is a risk of structural change distracting us from investing in and redesigning services in order to improve the lives of people right now.

**Liz Smith:** Will you confirm, then, that in the current financial circumstances, it is your preference, as the body that oversees local government, for finance to go straight on to the front line just now rather than for any major reorganisation as that would give you better options?

**Mirren Kelly:** Our view is that we can do things in our current structures. It is not that we think that there is no place for a national care service but that we have some differences over exactly what it will do and what it will achieve and deliver.

**Liz Smith:** Thank you very much.

**The Convener:** Thank you, Liz—your timing was absolutely perfect to the second.

I thank our witnesses for their very helpful evidence. As we have concluded our questions, I suspend the meeting until 10.45 for a break.

10:35

*Meeting suspended.*

10:45

*On resuming—*

**The Convener:** I welcome to the meeting our second panel of witnesses: Paul Bradley, policy and public affairs manager at the Scottish Council for Voluntary Organisations; David Melhuish, director, Scottish Property Federation; and Alastair Sim, director at Universities Scotland.

Thank you all for your written submissions to the inquiry. There are no opening statements so we will move straight to questions.

I will begin with Universities Scotland. I found all the submissions to be really interesting and there is a great contrast between them, so the committee will probably ask you all a similar number of questions.

Mr Sim, your opener is quite direct. The last paragraph on the first page says:

“Put bluntly, other areas of Scottish public life that should be prioritised for investment, including higher education, look as if they will have to fight for the leftovers from the highest priority commitments.”

That is on the back of your saying that the Scottish Government's priorities should include universities and higher education. The issue with that is that every single organisation—and I mean every single organisation—that comes to the committee says the same thing: we need more resources for our sector. You just have to fill in the name of the sector.

You have made arguments for why you think it should be the universities sector, but where should the resources come from, and how much additional resource should the Scottish Government be putting into the sector?

**Alastair Sim (Universities Scotland):** I recognise what you say, and it really underpins our comments. With a scarce public resource, everybody is competing to make the best possible case for a share. We recognise that, in the consultation on the resource spending review, there are serious projections of what needs to be spent on things that everybody regards as a good thing, such as health spending and making sure that we have decent social care and social security.

However, that leaves the problem that we describe. If a sector is not overtly prioritised, what will happen to it? In our submission to the spending review, we will make a strong case that investment in higher education is one of the key things that you should be doing if you want to create a sustainable, green and inclusive economy. It is not simply an investment in the sector, per se, but an investment in growth for society and the economy, and in making sure that we have the people with the skills to drive the

future economy and to deliver the ideas and innovations that will mean clusters of growing business and inward investment. We are really sustaining the anchor institutions that sit at the heart of so many of our communities.

We think that we have a strong case. We recognise that politicians have difficult choices to make, but there is a strong case for investing in a sector that can generate inclusive growth and future tax revenues by growing a pool of talented people and clusters of economic growth.

We are concerned that the projections in the spending review consultation document make it look difficult to achieve all that, and we sit here with honest concern.

**The Convener:** I appreciate that, and you have made a strong argument, but the two questions that I asked initially have still not been answered. How much additional resources are needed and from where should they come? In the earlier part of the meeting, we discussed preventative spend. A lot of the growth that you are talking about will not come this year or next, but the money will have to come out of the budget this year and next. Where should the resources come from? Local government has made a passionate plea and the SCVO is also keen to have additional resources.

**Alastair Sim:** I cannot answer that question.

**The Convener:** But that is the \$64,000 question. I am sorry, but the Government sets its priorities and if people are going to ask for additional resources, it is surely incumbent on them to say where they should come from. Should they come from taxes or elsewhere in the Scottish budget?

**Alastair Sim:** Those are the genuinely hard decisions that Governments have to make. We are here representing a sector that believes it has a strong case for investment because it will create opportunity and growth, and indeed because it will create tax revenue. It is the politicians who will have to sit down and actually make those tough decisions between a number of good cases. All I would say is that I think that we have an exceptionally good case.

Coming back to your question of quantum, we submitted an analysis in the autumn, in anticipation that what we would see in December might be a multiyear spending review outcome. We made a multiyear case that, if our contribution was really going to be optimised, quantified investments building up to about £240 million over the period of the spending review were needed.

We also recognised that Governments are facing tough constraints and tough choices. While we were setting out what it would take to maximise our contribution to the Scottish economy, we

recognised that we might not get our whole way on that. However, it was a reasonable quantified assessment of what investment it would take, over the spending review period, to get us to make the best contribution that we could to Scotland's inclusive growth.

**The Convener:** It is very helpful for you to put a sum on what you would require. In your paper, you noted:

"That capital review projects further real terms erosion of support for research and innovation over the coming years."

The Scottish Government had a 9.7 per cent real-terms reduction in its capital grant allocation. How can you ask for additional funding in capital when the only way that the Scottish Government can meet its capital requirements at a time of high inflation is to borrow additionally, almost up to its limit?

**Alastair Sim:** Again, that is where Government has to make choices within the scarce resources available to it. We recognise that, but we are making a case. If you are making those choices—and Government always has a margin of discretion as to how it prioritises its resources—investing in capital and in universities gives you a good return. Last time that we got an additional allocation of capital for Scottish universities, more than 90 per cent of it was spent with Scottish businesses, creating a virtuous cycle of growth in the economy. That also helps us to do what we think students deserve, which is to provide facilities in which to study that are of the quality that they deserve. The problem that we face at the moment is an £850 million maintenance backlog to bring a lot of the estate up to a satisfactory condition, which is largely because we are sitting in a lot of 1960s and 1970s buildings that are frankly beyond their design life.

Yes, you are of course absolutely right in that Government has to make tough choices, but we think that there are good reasons, among those tough choices and among that margin of discretion that Government always has, to make investments in higher education, in meeting students' needs and in ensuring that we have the facilities and capital resources that can help us to bid for competitive funding from outside Scotland for research and attract talent and international students to Scotland. Those students will not be coming here if they do not think that what we have is of an internationally competitive standard.

**The Convener:** Should the Scottish Government be planning in the resource spending review for additional student numbers, both domestically and from overseas? Would you like a growth programme to be built in? If that is the case, how would you envisage that? Would it be 1 or 2 per cent a year higher? What would the



balance be? How do you think the Scottish Government should balance the number of Scotland-domiciled students with those from elsewhere?

**Alastair Sim:** At the moment, we are not specifically arguing for a significant increase in Scotland-domiciled students. We have prioritised arguing for students to be funded at a level that we think they deserve. Our core problem, on the teaching side, has been the erosion of the amount of money that we get to teach each student. That has gone down by about 12 or 13 per cent since 2014-15. We think that it has eroded by just over £1,000 per student in real terms, if we project into likely allocations for 2022-23.

Our priority has been to argue that, rather than aiming for major growth, we should ensure that students—and the support that they get through pastoral care, careers services and mental health services and so on—are funded at a level that reflects the cost of provision. However, I think that there is potential for growth, because we have an increasing demographic of young people coming through school who have good qualifications and aspirations for higher education. There is room for growth, but that has not been our top priority.

You mentioned international students. Obviously, every university is ambitious in relation to growing the number of international students that it has. They make a great cultural and educational contribution to Scotland and, to be candid, they also plug the gap that is created by the fact that the teaching of Scottish students is underfunded by the Scottish Funding Council by an estimated £157 million a year and, according to the Scottish Funding Council's figures, research makes a loss of more than £300 million a year.

Everyone is ambitious for growth but, looking around the world today, no one needs to be reminded that there are huge geopolitical risks involved in relying on international students for that. There is a serious concern that the future of the sector is being bet on one thing, because the core funding of teaching and research has been eroded, which has created a reliance on international income to a degree that I think is massively exposed to geopolitical risk.

**The Convener:** Thank you for that response; it is helpful.

Paul Bradley, your submission says:

"This tough environment is preventing voluntary organisations from long term planning, as well as harming financial sustainability and predictability for lenders, and requiring the frequent and resource intensive process of chasing small funding pots at the expense of focusing capacity on service delivery."

I think that we are all familiar with that situation. You go on to say:

"Ultimately this is hampering the Scottish Government's ability to address its core priorities."

In terms of the review, how can that situation be improved?

**Paul Bradley:** There is hope within the SCVO and the sector that the review will lead to the mainstreaming of multiyear funding across government—not just a three-year block of funding that is guaranteed, but multiyear funding that includes all the positive terms that voluntary organisations need, such as inflationary uplifts each year and the ability to be flexible enough to direct the funding to where it is needed, especially over a longer period as things change and we need to adapt to needs.

Recently, I spoke to an organisation that had not received an inflationary uplift in 13 years. That meant that, over that time, it had received a roughly 27 per cent real-terms cut in the funding that it receives from local government. We cannot expect voluntary organisations to continue to deliver the services that we want them to if they receive that type of funding.

In our submission, we are asking for more money in so far as we say that there should be inflationary uplifts and a contribution to core operational costs for organisations, particularly because there has been a shift towards more project and service funding, and it appears that all the support that organisations need to run their organisations properly—human resources, information technology and so on—has been forgotten about. Further, voluntary organisations cannot contribute to the Scottish Government's agenda in terms of fair work and decarbonising if they are given only project funding to focus on specific services.

Our hope is not just about increasing the level of funding; it is about getting the most out of the funding that is already there. That is really important. We are talking about a system change in how funding is allocated to voluntary organisations to ensure that they can make the best impact that they can in their communities.

I would say that asking organisations to apply for funding on an annual cycle results in them chasing their tails in order to stay open, and that wastes a lot of taxpayers' money, because those organisations have to use that capacity and time to go after new pots of money to make up that jigsaw funding, rather than focusing on service delivery and supporting people.

Regardless of the priorities that are set out in the spending review, we want to see a mainstreaming of multiyear funding to voluntary organisations across government—importantly, not just in funding from the Scottish Government but in funding from local authorities, which should,

we hope, also get multiyear settlements. Local government funding of voluntary organisations is crucial—I think that voluntary organisations receive about £500 million from the Scottish Government and around £1 billion from local authorities, which demonstrates how important it is to get it right at a local government level. I was pleased to see that COSLA said in its submission that it wants to provide multiyear funding for the services that it commissions. If local government is provided with multiyear settlements, questions must be asked if voluntary organisations do not receive multiyear funding from local authorities.

11:00

**The Convener:** Yesterday, I visited a social enterprise in my constituency, which echoed more or less exactly what you are saying.

About 22 years ago, when I was a member of the Social Justice Committee, we had an inquiry into the voluntary sector, and one of the issues that was raised during that was the problem of “initiative-itis”, whereby funding is provided for new initiatives for one to three years, and, by the third year, the staff of the project end up very nervous about whether the project will survive and spend their time wondering whether they will have to get another job and looking for other pots of funding. Often, good projects are established but are then discontinued. It seems that the situation has not necessarily changed as much as it should have done in the subsequent two decades. Is the SCVO concerned that there is perhaps an emphasis on the new rather than on things that have been proven to work and deliver on the ground?

**Paul Bradley:** Yes. Recently, I have been carrying out interviews with senior leaders of voluntary organisations and I have also tried to get randomised sample of views from across different sectors in Scotland, and the issue that keeps coming up is that independent funders and the Government focus on new projects. One organisation said that it feels that it is at the mercy of funders, whoever they are, in terms of their decision making and their priorities at any given time. If you are running a successful project that is delivering on important outcomes and a funder—whether it is an independent funder or a public funder—changes its priorities with regard to what it wants to fund, you are left looking for somewhere else to go for money. There needs to be more support for voluntary organisations to manage that transition between sources of funding.

What is really important is that, because funding very rarely covers core operational costs, organisations—particularly small ones without hefty reserves—are unable to fill that gap between projects, which puts them at risk of a lack of financial sustainability.

We absolutely recognise the issue that you raise. Even without the multiyear funding model that we would like to see mainstreamed across government, there are many changes that could be made to improve the situation. Organisations having to wait until March to find out whether they are going to get their funding for the next year is of no help to people who are working with auditors to prove that they are operating on a going-concern basis. Some auditors even ask voluntary organisations to show their planning for two years ahead, and they just cannot do that, particularly if they are waiting on letters from their funders to confirm that funding will be allocated. Even with single-year funding, there is much that can be done to improve the timeline of decision making and of payments. Some organisations that we have spoken to recently told us that, with regard to funding for the financial year 2021-22, they did not actually get the money in the bank until October. That is quite a substantial amount of time. Some organisations will be able to manage that, but others will not, and that puts them at risk. Even with the children and families fund, which keeps rolling over year on year as decisions are made around what replaces that, organisations only found out before Christmas that that funding would be renewed for another year.

All of that presents major challenges for organisations in relation to their planning. One organisation that I spoke to said that, unless it got a confirmation of funding from the Scottish Government, it would have to close, because it only had enough money to cover operating costs for about four or five months—that is how much it relied on the Scottish Government for its core funding.

It would be lovely to have more resourcing, and I think that what we would say is that funding the voluntary sector is a choice that Government can make in order to deliver on the outcomes in the national performance framework and deliver the type of fairer, greener and stronger economy that we want. However, if we cannot have more funding, we must look at how we can change the funding system to ensure that we get best value out of the funding that is already there.

**The Convener:** That is a fundamentally important point. Given that we are in a time of financial challenge, I am not convinced that there will be significant additional funding—let us be realistic about it. However, if the money can be spent more effectively and efficiently, that would be good. I can only imagine how difficult it is for staff—wondering every year whether they will have job after the end of the financial year and having to wait months for the processes to work through. The situation really is unacceptable, so we must address it.

The Scottish Property Foundation's submission says that

"resources should be directed towards areas of government dedicated to supporting economic development."

I will put to you the question that I put to Mr Sim earlier. How much additional resource do you believe should be put into that, and where should it be funded from?

**David Melhuish (Scottish Property Federation):** Our intention is to suggest that some of the challenges that we must address in order to provide the platform for the new economy—which is one of the priorities of the resource spending framework with regard to the transition to net zero and so on—are so huge that there is no way that the public sector or the private sector can address them independently. We think, although much of our response was directed towards resource spending, that there needs to be a significant increase in capital funding. That resource spending would be so that the various economic and enterprise departments of the Scottish Government could support business to grow the economy and, therefore, to provide tax revenues. Earlier, there was mention of a virtuous circle in that regard.

There is no doubt that the costs that are associated with the need to transform our built environment and our economy get well into the stretch of tens of billions of pounds over a 10-year or 15-year period. Capitalisation from the Scottish Government of £200 million, or even of £1.8 billion over the period, is really just tapping into resource. If the objectives of the transition to a net zero economy are to be achieved, much more must be done to create a platform that enables the private sector to provide support in terms of the key investment that is required.

**The Convener:** You are saying that there should be "a significant increase"—that there should be much more. How much more, and what does "significant" mean? Are you talking about 5 per cent, 10 per cent or more? Given that there has been, as I mentioned to Mr Sim, a significant reduction in the Scottish Government's capital allocation—9.7 per cent in real terms—where will we find those resources? If the financial review is to look at things in the long term, we must be able to attach numbers or percentages on what we are talking about. The phrase "significant increase" does not mean anything to me. Statistically, a significant increase could be 1 per cent or it could be 10 per cent or 20 per cent. What do you actually mean, and how should it be funded?

**David Melhuish:** I have to echo some of the earlier comments. Obviously, we are not politicians and, in a way, we can only paint a picture of the problem. We think that there are

strong arguments for enhanced borrowing powers. That would involve a debate between the various Governments, which is going on now. We accept that there is little doubt about the pressures on the Government's budget. However, if the spiral of decreasing revenue—which we described in our submission in terms of concerns about the Scottish income tax and the tax base of the non-domestic rates system—is to be broken, that will have to be done through trying to build growth into the economy. It is for the Government to help the private sector by building a platform that will enable that investment to come forward.

We have always said that capitalisation of about £200 million for the Scottish National Investment Bank is far too little, and that more needs to be achieved through that route. The money that the SNIB has is intended to leverage in additional finance, so that might be a way by which the Government could maximise its investment.

**The Convener:** I do not think that I will be able to pin you down much further. However, you mentioned enhanced borrowing powers. That is something.

Your submission mentions the prediction of a significant rise in non-domestic rates income over the next few years. A number of colleagues and I raised our eyebrows when we read that. You say in your submission:

"This implies an expectation of rateable valuation uplifts for commercial properties which may not materialise as the economy adapts to the post-Covid era, particularly if there is a reduction in the number of NDR producing commercial properties as buildings are changed to alternative uses."

How do you see the market going? Do you feel that the predicted rise in non-domestic rates is achievable? Is it realistic, will things stay much the same or will they deteriorate? What does the SPF feel the position is and how would that fit into the Scottish Government's framework?

**David Melhuish:** We have major reservations about whether the uplifts will be achieved. We have seen, during the pandemic, acceleration in the decline in the number of retail property outlets across the country.

On the other side, there will probably be an increase in central-belt, grade A, top-level office rateable values, but the SPF does not think that that potential increase will accommodate the decline in the commercial property rateable-value tax base across the country as a whole. That is why we question the expectation that there will be increases over the next few years.

**The Convener:** You go on to refer to "the well documented change in consumer behaviour" and you talk about

“The loss of economic productivity and tax revenue associated with these falls in activity”.

**David Melhuish:** Offices might not be in as much demand as they were previously, given the changes in working arrangements. We are already seeing conversion of some offices to residential use. That would, potentially, improve the council tax base, but we are not certain about that at this stage, so we are focusing primarily on the NDR base.

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

Mr Bradley, in response to the question

“Does the framework properly reflect the current economic and political context?”

the SCVO stated that

“there is little recognition of the integral role played by the voluntary sector in social and economic life”.

From whom is there little recognition? My understanding is that there is a lot of recognition of that role at all levels of Scottish society, so can you expand your thoughts on that a wee bit?

**Paul Bradley:** The situation is far better in Scotland. We can see that from looking at the United Kingdom Government’s recent “Levelling Up the United Kingdom” report, which refers to the charity sector as delivering

“a million acts of kindness”.

We do not refer to the sector in that way in Scotland, so we are in a much better space here. It is recognised that we are a crucial part of the Scottish economy. We have seen that in terms of the Government’s response during the pandemic. The speed at which it worked to deliver emergency funding to the sector highlighted the importance to it of the sector.

Our experience, though, is that it is very difficult to see, in the development of economic policy in Scotland, the place of the voluntary sector in relation to the various products and initiatives. We have mentioned the Scottish National Investment Bank. If we are trying to think about new ways in which sectors are funded and supported, there is no reason why voluntary organisations that deliver significant services should not be able to access the same loans or flexible finance. The SCVO worked very hard to get that in the legislation that set up the SNIB. That was in order to ensure that voluntary organisations would be able to access that funding. However, there has been no discussion of what that might look like in the future. If we are trying to think about innovative ways in which to support the sector, that is one example to consider.

I had, before I came into the meeting, a little look through “Delivering Economic Prosperity”, Scotland’s national strategy for economic

transformation, which was published this week. There are a few mentions of the sector in there, but it focuses mainly on the public and private sectors. There is a lack of mention of voluntary sector engagement at the top table, in trying to set the economic strategy for the next 10 years. If you do not have voluntary organisations or a representative of them engaging in those discussions, there will be a missed opportunity in terms of getting the most out of a sector that is so important for a wide range of things; it delivers care and digital inclusion initiatives, volunteering and mental health services. The sector’s contribution to the national outcomes covers all that, so why is the voluntary sector always missing from discussions about Scotland’s economic direction?

**The Convener:** You are probably aware that last Thursday we took evidence from the Secretary of State for Levelling Up, Housing and Communities, Michael Gove. I put directly to him some of the concerns that SCVO raised in its submission. SCVO and the voluntary and third sector that it represents makes a multibillion-pound contribution to Scotland in cash terms—not to mention the phenomenally important social aspects.

Were you reassured by Mr Gove’s responses? When I put the issues to him, he indicated that the UK Government wants to do a lot more to support the sector.

11:15

**Paul Bradley:** Thank you for raising those issues in that session. We will absolutely contact the organisations that are in receipt of European Union funding and which face a cliff edge in order to ensure that they get in touch with their elected representatives. We are engaging with the Department for Levelling Up, Housing and Communities and colleagues in the Office of the Secretary of State for Scotland, among others. My understanding is that there is uncertainty in the civil service so, obviously, there will be uncertainty for voluntary organisations that face that funding cliff edge. There are also a lot of other changes in relation to funding, including the change in employability funding, the “No One Left Behind” strategy and the move to local service delivery.

Many organisations are facing the end of their funding from various sources; the EU structural social funds are but one source. We are concerned about that, but we are engaging with the UK Government. We have said from the start that we are concerned about the absence of the Scottish Government from delivery in Scotland of the UK shared prosperity fund, and members of the Cabinet have raised that point in Parliament.

We do not know who is taking the decisions about what in Scotland is being funded by the UK shared prosperity fund. For example, the UK Government has said to local authorities that it will, for the first two years, not focus on funding people and skills, over which it has oversight. However, it will support continuation of some successful projects that are at risk.

We do not know what will happen in Scotland because the UK Government is not responsible for people and skills. We do not know who is making the decisions about what will be funded in Scotland by the UK shared prosperity fund, either in the first two years or the following years. There is a lot of confusion, so we are pleased that the matter was raised in the committee. Obviously, local government has a big role to play, but we are concerned about voluntary organisations getting access to the funding, particularly given the cliff edge that organisations are facing.

**The Convener:** Thank you. I have a final question. I opened with Mr Sim, so I will close with him, before I allow colleagues to ask questions. My question relates to the framework properly reflecting the current economic and political context. What you have said is:

“shouldn't the Scottish Government set a priority of making Scotland competitive in attracting a working-age population from outside our borders, and stimulating robust economic growth to create jobs and attract them?”

Putting external migration to one side—obviously, we could attract many people from elsewhere in the UK to Scotland—why, do you think, is the Scottish Government not doing that?

**Alastair Sim:** It is not necessarily that the Scottish Government is not doing that; it is just that when we read the consultation document on the resource spending review, it sounds as though it is making quite static assumptions about our demography and economic growth. I feel that the consultation paper could have communicated a much stronger ambition for economic growth and for demographic growth in our working-age population. The document seems to take it as a given that we will see a rebalancing of the working-age population and the increased non-working age population.

From the universities' perspective, I note that we are one of the huge magnets for talent to Scotland, whether it is from the rest of the UK, the EU or further afield internationally. There could have been stronger emphasis and recognition in the spending review that things that can be done in society and the economy to lever in talent and create growth could be prioritised. It feels somewhat as though the review assumes a particular economic and demographic trend, rather than asking hard questions about how that trend

could be bucked and how demographic and economic growth can be hypercharged.

**The Convener:** Perhaps the review needs to be more ambitious in that context.

I have taken up enough time and, obviously, I need to let my colleagues in.

**Liz Smith:** Mr Sim, I hope that you will not mind if I continue with questions on exactly that theme.

In your submission, you were very clear that one of the issues that worry you is that things such as research, innovation and artificial intelligence are now classified on the capital side of spend, rather than the resource side, and that the national performance framework concentrates on the latter.

I think that all of us in Parliament would argue that research and development is one of the great strengths of Scotland's university sector. Earlier, you mentioned that Scotland is able to attract absolutely the finest people. What would you like to see being done in recognition of that? It is obviously one of the sustaining factors of the sector.

**Alastair Sim:** Obviously, we have already seen output from the capital spending review. As the convener noted, it projects a real-terms decline in capital expenditure for universities. That is a concern.

A basic structural issue is that the core Scottish Government funding for research that is now categorised as capital, as Liz Smith said, pays for essential research infrastructure and staff, and universities then use that platform to go out and bid for competitively won research resources, whether from UK Research and Innovation, industrial sources or—hopefully—the horizon Europe scheme. Those lever in huge amounts of money in Scotland; I think that we lever in to Scotland about £800 million for research. That then catalyses economic growth because it generates ideas that turn into innovation and industrial growth, company growth and attraction of inward investment.

We are concerned because—in an experimental sense—we have seen a substantial real-terms erosion of core research funding from the Scottish Government since 2014-15. I do not have the figures here, but off the top of my head I think that there has been a real-terms reduction of about 13 per cent. That corresponds with an actual reduction in our success in leveraging in external resources. Back in 2013, we got nearly 16 per cent of UK investment in research and innovation; the latest figures show that below 13 per cent of UK-level resource now comes to Scotland.

I come back again to the virtuous circle of creating growth. There are various economic estimates, but they range from about an eightfold

to a tenfold multiplier in economic growth from new research investment. We think that we are seeing a slow degradation of our capacity to be a motor of innovation and economic growth.

**Liz Smith:** On the outcome agreements that are established between individual universities and the Scottish Funding Council, is what you enunciated exactly the main concern of individual universities as they approach their discussions with the SFC about determining outcomes? Do they all share the view that that is where potential problems could hit hardest?

**Alastair Sim:** Three things keep people from universities awake at night when they consider outcome agreements. One is, as Liz Smith mentioned, the progressive degradation of our capacity to compete and lever in research resources to Scotland from outside and to create growth.

I alluded to the fact that universities are also seriously worried about the amount of money that is allocated for each student for teaching as well as for the pastoral, career and mental health support that they need. In 2021-22 that has, since 2014-15, been eroded in real terms by about £850 per student; we reckon that it will have been eroded by more than £1,000 in real terms by next year. On average, we get about £7,400 per student, whereas in England the figure is £9,250. Therefore, it just does not pay. As a result, staff have to work harder and harder with diminishing resources to meet the needs of students, which is a serious concern.

The third thing, which also relates to economic growth, is funding for knowledge exchange. We work with a lot of businesses—universities work with about 20,000 business a year to provide consultancy services and expertise, and about 35,000 people a year do continuing professional development at universities. Typically, that work is done at a loss—not least because Scotland's economy is based on small and medium-sized enterprises and because it is the right thing to do. However, it is a loss leader. We are seeing year-on-year erosion of funding for staff who can have that detailed engagement with business. That engagement can be catalytic for employment, growth and addressing the issue of the long list of uninnovative businesses that have been a brake on the Scottish economy.

**Liz Smith:** Finally, when it comes to being at the cutting edge of innovation and research, where Scottish universities have punched well above their weight for a very long time, is there evidence that Scottish universities are finding that more difficult? In other words, is there evidence that the knowledge exchange that you spoke about and international co-operation, which has been absolutely crucial to many universities in Scotland,

particularly in the past two decades, are being undermined due to the funding situation?

**Alastair Sim:** Absolutely brilliant stuff is still being done across the sector. In May, we will see the results of the research excellence framework across the UK, which, I hope, will affirm a lot of top-class international strengths in Scottish universities. However, I come back to the objective evidence of the reduction in competitiveness when it comes to getting out there and winning resources. Those are won on the basis of having high-quality bids, which are often collaborative, and having world-class facilities in which world-class researchers can do research.

We are still doing well and some fantastic research is being done across the sector, but the metric shows that, although we used to be a heavyweight and compete above our weight, we might be more of a welterweight now, which is really worrying.

**Daniel Johnson:** I will ask each of you a question. I will begin with Alastair Sim, and I will pick up from where Liz Smith left off.

In your submission, you state that, since 2014-15, the teaching grant has declined by 13 per cent. Will you bring to life for us the practical impacts of that? I think that your submission is saying that that slow decline cannot carry on. If we are sitting here in five years, and that trend has straight lined, what will be the consequences for higher education as a sector and for individual institutions?

**Alastair Sim:** I will be candid: it can be a difficult area for individual institutions to address. To go back to the beginning of this conversation, those institutions are all competitive, and they are trying to attract international students, which has become core to the business and getting resources into the sector to enable us to do our best for Scottish students.

I will try to generalise. What one already sees—and could see more of—across some institutions is an erosion of the staff-to-student ratio, which means that staff are having to support more students more intensely. Our experience is that staff have to not only offer teaching and feedback, but address students' increased welfare and mental health needs, which were increasing before the pandemic and have been accelerated by it, and address the learning that students lost as a result of the pandemic. Whether they come from school, college or even the early years of university, the disruption to their learning means that they now need more intensive input from academics.

11:30

The other issue is access to services. Already, we hear students saying that, if they want pastoral support or careers advice, they are not always getting it as quickly as they would want to.

The risk that we face over time is that there will be more stress on staff and less attention to the individual student. Institutions will do everything that they can to avoid that because we have to put the student at the centre of everything but, if the resource keeps diminishing in real terms, it just gets harder and harder to do our best for a student in teaching, support and providing the quality of facility that they deserve.

**Daniel Johnson:** I will ask a direct follow-up question to that. Obviously, institutions cannot charge fees for tuition but will that lead to a situation in which they charge fees for things for which they can? For example, will they increase accommodation fees or fees for access to other things on campus that are not tuition?

**Alastair Sim:** The honest answer is that I do not know. To take a values-based approach, there has been a strong and right emphasis on ensuring that access to university is socially inclusive and that people are not denied opportunity because of the circumstances that they come from. To increase such fees would be to take really hard steps, but I am being candid that there are increasing stresses on the system that affect students and staff.

**Daniel Johnson:** I will move on to the Scottish Property Federation's submission. As a former retailer, I was pleased that the federation highlighted the issues that that industry faces. The specific point is that we cannot rely on non-domestic rates, but there is a broader point, which is that the framework document treats resource funding as fixed and uncontrollable. To my mind, there is insufficient examination of what things the Government can control to increase its revenue. The primary one is income tax.

That problem is set to increase, as set out in the Scottish Fiscal Commission's forecast. Does the Scottish Property Federation have thoughts about what sorts of things need to be included? What levers and dynamics are at play in the economy that the review should take into account?

**David Melhuish:** A directly related point is that, last Friday, the UK Government came up with ideas for an online sales tax, which could have impacts on business rates down the line. That might not help with the clarity of the budget-setting process because, to judge from an initial view of the proposals, it would be a funding rebate.

On priorities and matters that need to be addressed, we want to grow the tax base by growing the economy. We want our towns and

cities to thrive. We want to have a built environment that puts a roof over the economy, supports new places for people to live and learn in and supports the higher education sector's accommodation and other needs. That will take some support through the planning system, in particular. We make that point in our submission, too. That sector has had budget cuts of around 40 per cent over the past 10 years.

COSLA spoke to you earlier. The pressures that local authorities have on their planning budgets are understandable. In 2019, the Parliament basically voted through 49 new burdens on Scotland's planning departments, which have not had the resource allocated to them to address those and begin to support the economy's transition to net zero. Planning must have a much higher priority in the resource spending framework for it to be the platform for investment that will get us into that virtuous circle. We are hugely concerned about that. I think that the Royal Town Planning Institute gave a figure of £60 million for those new burdens over a decade. Resource has not come forward to support planners to address those issues.

In the context of a multibillion pound budget, planning is not asking for additional hundreds of millions of pounds, but it could be crucial as a catalyst in supporting the economy to rebuild. That is a deep concern for our sector. The convener led off by saying that most sectors ask for more money but do not offer to put more money in, but this is, for once, a sector that has said that we must pay high planning fees to contribute towards the economy, and planning fees went up quite recently. Our members want an improvement in service as part of that, which is fair enough. For us, that is the most critical lever into the day-to-day spending that we see across local government in Scotland.

**Daniel Johnson:** That link between the planning system and productivity in the economy is often overlooked.

After making that comment, I should probably advise members that my wife is a planning lawyer. That does not prevent me from railing against the planning system when I am at home.

I just did a quick word count of the resource spending review framework document, and I was surprised to find that "jobs" appears only once, "employment" appears only twice and "productivity" appears only once. Do witnesses agree that the framework and, once it is produced, the review should probably feature those words a few more times than that? It is a slightly flippant question but I want to put it to you.

**David Melhuish:** Well, yes. All the other ambitions will simply not be achieved unless you

have growth in employment and people paying their tax revenues to support your wider ambitions. I would include “productivity”.

**Daniel Johnson:** Finally, I come to you, Mr Bradley. I was listening to your interaction with the convener, and it struck me that we continue to talk about the budget and the voluntary sector as though it is just that—a sector that is made up of volunteers doing nice extra things. Do we need to have a proper discussion about that and reassess it? I do not think that that is the nature of most of the organisations that we are talking about. We are talking about independent, not-for-profit, service providers. They are staffed by professionals, and the services that they deliver are delivered by professionals. Indeed, for a significant number, that is all or the majority of what they do. Essentially, they deliver services on behalf of the public sector.

Is that a fair reflection? Do we need to have a grown-up conversation about the relationship between the voluntary sector and the state?

**Paul Bradley:** Yes, I think so. The voluntary sector is predominantly made up of organisations that are run and led by volunteers, but when we are talking about the multiyear funding and delivery of services, it is those organisations that have the staff teams.

For a number of years, SCVO has been trying to work more collaboratively with the Scottish Government and COSLA to look at strengthening collaboration and partnership working. In addition—this has come through all the conversations that I have had with organisations from across all the different sub-sectors, whether poverty, environment or health and social care—there is a need for greater recognition in the public sector of the added value and contribution of voluntary organisations. It is important that those organisations are involved at the start of planning processes and conversations about the development of contracts and so on.

We are working with COSLA and the Scottish Government on a programme called strengthening collaboration. It has been running for about a year and we are now looking at all the obstacles that have stood in the way of partnership working between the three sectors. However, such a programme needs to be resourced effectively if it is to be able to bring those partners together to look at areas in which we can make a practical difference and improve how the sectors work collaboratively together.

The programme is funded through the third sector fiscal resource budget line, which was cut in this year’s budget by about £800,000. As a result, there will be restrictions and an impact on what can be done, whether it be the strengthening

collaboration programme, the volunteering action plan or the social enterprise action plan. We certainly need to have a conversation about the health of the voluntary sector in Scotland and the role that Government and Parliament can play.

The UK Government is doing something similar at the moment with the Charity Commission and how it is planning to monitor the health of the charity sector and the wider voluntary sector. I am not saying that a similar approach should be taken in Scotland, but I think that it would be good to have a conversation about the role of voluntary organisations in Scottish society. We are not just 45,000 organisations that turn up at a time of crisis—although it is always a time of crisis somewhere. We are there, day after day, delivering vital services through at least 100,000 employed staff, if you take universities and so on out of the equation.

As we are talking about a crucial part of the economy—indeed, it has a larger staff base than the financial sector in Scotland—we need to look not just at the services that we deliver and how we improve them and people’s lives but at how we deliver fair work and good support for employees in the sector.

**John Mason:** A lot of ground has been covered already but, as you might have seen, one of the questions that I asked the previous panel of witnesses was whether the framework was too high level and whether it should have contained more detail. Perhaps I can ask the same question of this panel, starting with Mr Melhuish.

**David Melhuish:** It is true that we are talking about very big handfuls. It is right to take a multiyear approach, which will probably dictate some very high-level consultation at the start, but what you have said is a fair reflection. For our response, we burrowed through the Government’s budget to see where things might be going in future years, and it therefore goes into much more detail on the matter. That would certainly be a fair concern for us.

**John Mason:** I will ask the others for their responses to that question later, but another witness whom I previously quoted suggested that one way of giving more certainty over five years is to hold back money at the beginning, which means having less spending but allows a reserve to be built up in order to give a bit more certainty further down the line. Would you support such an approach?

**David Melhuish:** I certainly like the idea of a contingency reserve, but the difficulty is finding the spare cash to start creating one. However, it is certainly is a good concept.

**John Mason:** In response to Mr Johnson, you said that the UK Government has been floating



some kind of tax on online retailers. Do you support such a move as something that would take pressure off our having to tax the shops in the street?

**David Melhuish:** The proposal came out only on Friday, and we still have to look at the detail. However, I believe that, under the UK Government's proposals, the online sales tax would help to lift the burden off retailers, in particular. Obviously, that would be very specific to England, but I think that that support for retailers would then come back through the devolved Administrations as some form of targeted support. I presume that such a process would fall within the Parliament's remit.

**John Mason:** Mr Bradley, would you like to respond to the general question whether the framework is too high level?

**Paul Bradley:** The priorities in the framework are good and worthy, but you could probably fit the whole voluntary sector and what it does into the third priority of

"a stronger, fairer, greener economy".

In that sense, it is quite high level.

I wonder about the absence of the national performance framework—there are a couple of links to it, and a throwaway paragraph about sustainable development goals in the NPF—and I wonder how we are using the NPF to decide our spending priorities over the next few years. A witness on the previous panel expressed the assumption that we are using indicators from the NPF to underpin all the stuff that is in the framework, but there is no explanation of that. Again, that is a sign that, although we call the framework a national performance framework, we are not necessarily using it to drive our performance.

11:45

Whenever I look at a new document, whether it is from the advisory group on economic recovery or whoever, there is always a different framework—there is a wellbeing framework or a national performance framework, or there are three pillars or three priorities. As was mentioned by someone on your previous panel, there seems to be a disconnect in all of this, and it makes organisations uncertain about where they fit into it all. Does an organisation contribute to the child poverty priority? Yes, because it employs people—that is even before we think about the direct services that organisations provide.

I think that, beyond those priorities, we must see a shift to multiyear funding across Government.

**John Mason:** I might return to that point. I was interested in Daniel Johnson's questions about what people think of the voluntary sector, because it covers an incredibly wide range of things. At one end, you represent what I would call the small charities that are wholly staffed by volunteers and get no public money; you also represent big organisations—Quarriers and so on—that get a lot of public money. Have some of the organisations in the sector become too dependent on public money? Presumably, they started off relying on donations, mainly.

**Paul Bradley:** Since the financial crash, organisations have been trying to diversify their income, but the challenge with that is that organisations end up managing many different funding streams—one that I recently spoke to manages about 36 of them. Each of those streams has a different reporting process, and the organisations get bogged down in all of that. We need to look at how the voluntary sector is funded and supported overall, so that we can ensure that the situation is fair for small and medium-sized operations, too.

Funders, other than the Government and local government, are reluctant to provide core funding; they want to fund projects or specific activities. However, to deliver a service, activity or project, you need an organisation. Where do you get the funding to pay for all the different things that that organisation needs to do to stay afloat? Further, where do you get the money to do all the things that it needs to do in order to decarbonise, deliver on Scotland's fair work ambition and all the other Government ambitions that we want to contribute to, because we are a key sector?

**John Mason:** Multiyear funding, which we addressed in the previous evidence session, too, is an issue at every point in the process—the UK Government gives money to the Scottish Government; the Scottish Government gives money to local government; and local government gives money to voluntary organisations.

If, say, Glasgow City Council could not guarantee a particular charity 100 per cent funding for the next five years but could guarantee 80 per cent funding, that would give some certainty to the organisation, which could then flex, depending on what else it could get. Would that be an acceptable compromise?

**Paul Bradley:** Voluntary organisations are pragmatic. We recognise the challenges that the UK Government, the Scottish Government and local government face. What we want is to be able to have the certainty that COSLA mentioned earlier that would allow us to plan effectively. We need that in order to be able to retain staff and fund services so that we can develop those services in the long term and support people,

because supporting people at difficult points in their lives usually takes longer than the length of an annual funding cycle. If we are just focusing on securing funding on that timescale, we will not be able to deliver what we want to.

On the specific example that you mention, there could be a range of options. As I said, voluntary organisations are pragmatic and understand the challenges. That indicative funding would be helpful. We acknowledge that things are unpredictable but the risk that is transferred from Government to voluntary organisations is substantial compared with the risk that the Scottish Government has in terms of the funding that is coming to it. Voluntary organisations simply do not know whether they will get any funding, which is the big difference between local government, national Government and voluntary organisations.

**John Mason:** Yes. Although local and national Government might not know exactly what they are going to get, they know that they will get a chunk; however, your members might end up getting nothing in April.

**Paul Bradley:** Absolutely.

**John Mason:** Mr Sim, would you like to come in on my general questions about whether the framework is too high level, and whether the Scottish Government should be holding back reserves?

**Alastair Sim:** Yes, I would. I am not sure that I am concerned that the framework is too high level. I am more concerned that it is perhaps too exclusive, and that really important contributions are not necessarily embraced in the three priorities, such as individual growth and opportunity, and what higher education can do to help an individual to realise their talent and opportunities. Those aspects are not really reflected.

There is—rightly—an emphasis on child poverty, but how do we address intergenerational impacts? We could have interventions, such as getting more adults into higher education, and we could complete the incomplete national mission of widening access to higher education for people from socioeconomically disadvantaged backgrounds.

I think that we should be ambitious for Scotland as an international actor. We should be ambitious about higher education as one of Scotland's economic and reputational beacons. My concerns are not so much that the framework is high level but that the well-intentioned priorities perhaps exclude other really important things relating to individuals' growth and to Scotland's wellbeing and growth.

Your point about reserves is interesting, because that is exactly what universities must do. Any surplus that they as charities generate gets held over as a reserve, which is where we have to find the margin to make at least some investment in facilities and in resilience against shock in an unpredictable world.

Public finances work a bit differently, as there is limited capacity to carry things over. However, your point is really interesting because it is an example of how universities have to manage their business. The recommendation from funders is that they should maintain at least a 2 or 3 per cent surplus each year as a reserve. In doing so, they will have that investment margin and resilience, which have been extremely hard for a lot of institutions to achieve over recent years.

**John Mason:** I am interested to hear you say that, because it relates to my next, and probably final, point. I took the opportunity to look at the accounts of the University of Glasgow, which is where I studied. As at last July, its unrestricted reserves were £766 million and its total reserves were more than £1 billion. That is more than the Scottish Government is allowed to have in reserves, let alone what it actually has, and it is more than the university's total annual income. I accept that the University of Glasgow might be one of the richer universities, but when it is sitting on so much money, how can you plead that we are not paying enough per student?

**Alastair Sim:** There are a number of factors. The spread is massive among different institutions with regard to how much they are able to carry over. In the most recent accounts that we saw—which are for 2020-21; the ones for 2021-22 are not yet complete—about half of the institutions were in deficit and unable to carry over anything at all from one year to another. As you say, some institutions have done better than that.

I do not know the detail of the University of Glasgow's finances, but I know that it took on massive amounts of borrowing to fund an ambitious expansion in the west end, which hugely increases their impact for good on the community in Glasgow, including across the Clyde, in Govan. It might be the case that it needs to have that money in the bank to demonstrate that it is an investable proposition, so that it can do things that generate community and economic benefit, and which contribute to research and innovation strength.

You are right to point to the issue but, if you are managing the university as a big charitable institution, you want to make sure that you have a margin for investment and a margin for resilience. You need to have enough in the bank to make you an investable proposition when you want to borrow

money to do something that will generate good for society and the economy.

**John Mason:** I accept a lot of that—I totally accept that universities are doing good. I am very proud of the fact that we have some of the best universities in the world. I just think that, when the Scottish Government will be so tight for money over the next five years, we maybe need to see a little bit more financial contribution from universities.

I do not think that colleges, the NHS or local government holds reserves at such levels. I do not want to spend all my time on the University of Glasgow, but the creditors figure is £252 million in its previous accounts. That fine figure is presumably being used for investment. However, the cash and cash equivalents figure is £488 million and the investments figure is £247 million, so there appears to be a lot of extra money sitting there.

Would you not accept that, if the Scottish Government is tight for money, we need to concentrate on the colleges, the NHS and local government, and the universities really must tighten things up a little bit?

**Alastair Sim:** I recognise that the Government must balance a lot of priorities. However, as a charitable institution, having a reasonable reserve is simply what you should be doing as part of prudent management.

Also, things are pretty different across different parts of the sector and in different institutions. Some institutions—particularly the ones that have that international capacity to leverage in international resource—are typically in a slightly more robust condition than perhaps some of the more modern universities, which do not have that reputational standing internationally and must work harder to generate that additional income.

Audit Scotland has looked at the issue twice in the past five years and its overall conclusion was that, when you look at the sector as a whole, the position of the University of Edinburgh and the University of Glasgow in particular, as the really big institutions and huge competitors in that international environment, masked a stress that was widespread throughout the sector—

**John Mason:** So maybe we should target our support more towards the other universities?

**Alastair Sim:** A student should be funded at a level that reflects the costs of teaching that student; that is a fairness argument that applies across the sector—

**John Mason:** But, by your argument, surely we should pay more for a student at Glasgow Caledonian University than we do for a student at the University of Glasgow, for example?

**Alastair Sim:** I celebrate the fact that the University of Edinburgh and the University of Glasgow have got something to invest, but they are also looking hard at how to do the best for students within the resources that they get.

As a charity, you should have a decent reserve—that is the position that you should be in. However, that does not necessarily exempt you from having to make a hard examination of whether you have got what you need to support your borrowing and to invest in your facilities. As I have said, there is a major backlog in relation to the investment that is needed in many of the facilities, even at the great universities. At the same time, you need to examine whether you have got what you need to have the staff-student ratio that enables you to do the best for your students. No one is exempt from having to make those hard decisions.

As a matter of fairness, the Scottish Government should be funding the teaching and support of students at a level that properly reflects the cost, not least because—to come back to the beginning of the conversation—that huge reliance on international students, although it is great educationally and culturally, is a massive geopolitical risk.

**Douglas Lumsden:** I just want to dig a bit deeper into the £7,400 teaching grant that you mentioned. I guess that the Scottish Government would pay that for all Scottish students and would have been paying it for all EU students in the past. That latter cost will reduce over time. Is the EU contribution part of it a significant chunk of the overall teaching grant that comes in?

**Alastair Sim:** I can give you the EU student numbers, if you give me a second, but I could not give you the exact proportion of the teaching grant that was allocated to those students.

At the margins, we are seeing a cohort-by-cohort reduction in the number of EU students who are funded from the SFC teaching grants, which is both helpful and unhelpful. It is unhelpful in the sense that we really liked having European students. A lot of courses, particularly in Aberdeen, benefited from having a strong cohort of European students with real skills.

The change creates some cohort-by-cohort flex in the system. We have seen a 50 per cent crash in the number of EU students coming since fees were introduced for them, but we still hope to welcome them in significant numbers.

12:00

**Douglas Lumsden:** To go back to the convener's original question about where the extra money would come from, there is a significant

saving to the Scottish Government from not having to pay those fees. Instead, it could increase the rate of the teaching grant per student to make up some of the shortfall without it having to cost the Government any more, because it does not have to pay for EU students.

**Alastair Sim:** I think that that gives the Government a tiny bit of flex when you look at the aggregate level of reduction in resource and the fact that other things will have to be absorbed. This year, new graduate apprenticeships are being absorbed into the core teaching grant, which means that the margin of discretion is quite low.

If I were to express a shred of optimism, I would hope that, given what you have said about EU students, the Funding Council might be able to put in a little extra for each student's funding this year. I do not think that it would have the capacity to match inflation, but I think that it might have a margin that enables it to at least make a cash advance towards the funding per student.

**Douglas Lumsden:** I guess that there is a little flexibility because the numbers of EU students have reduced.

David Melhuish, I want to talk to you about one of my favourite topics in this committee: non-domestic rates. As you indicated in your submission, I also find it hard to believe that, in just four years, NDR will go up by 25 per cent. There will be a new tone date in one month's time and revaluation will be a year after that. For NDR to rise by that amount, there are only a few options: either the NDR base, revaluation or the poundage rate will have to increase significantly. Where do you or your members think that the money will come from to pay for that?

**David Melhuish:** We are very concerned about the upward pressures on the poundage rate, given the reservations that we expressed earlier about the growth of the rateable value tax base. That is a major concern, because then we get into Scotland's competitiveness across the UK. There are higher tax rates for larger businesses right at the top, and those rates are already beyond those in other parts of the UK.

The overall shape of the tax base is of great concern. Effectively, there are relatively few shoulders on which that falls, because the Government's policy is to have a lot of rate relief at the lower rateable value thresholds—or even to exclude those thresholds. For a growing tax base, that creates more pressure on fewer shoulders. We are very worried about that, because we do not see growth as the answer, even though we have been supportive of many Government initiatives such as the business growth accelerator relief. Those initiatives are not always perfect but

the intent to support growth in the economy has been excellent.

However, we struggle to see where that will go. In the north-east, the last revaluation came in just as the economy changed remarkably. That led to Government having to introduce support very quickly, although, arguably, that did not go as far as the industry had hoped. I would have thought that there would be a marked change coming up in the forthcoming revaluation for north-east offices.

**Douglas Lumsden:** A lot of businesses in the north-east are pinning their hopes on revaluation. It has been quite frustrating that that has been delayed for a couple of years.

Another aspect that you point to in your submission is the empty property relief. In the north-east, I have seen plenty of good commercial property being bulldozed to save on NDR. Would devolving that power to local authorities make things better or worse?

**David Melhuish:** We have been talking to local authorities and it has to be said that they are only just beginning to get their heads around the policy transfer. I believe that there are discussions with the Government about financial transfer to support the cost of relief, which is now much lower than it once was.

The problem with how the system works at the moment is that the rates that property companies, landlords and developers pay for properties that have fallen vacant—largely because they have no market any more—are just part of the cost. You have all sorts of costs, such as insurance and facilities. The rates are an additional tax on failure because landlords often do not have tenants lining up to come in. They also skew the market, which might well come through in the revaluation, because a sitting tenant will be able to say that, if the landlord does not accept a rental offer of next to nothing—sometimes, it is nothing, just so that the tenant takes the rates—they will go off elsewhere, leaving the landlord with that large tax burden and no income to pay it.

We have often heard, particularly in the Parliament, that the policy is an incentive for landlords to let property. I make the straightforward point that landlords like to let properties because they like rental income. In areas where we have fundamentally weak markets, the system means that landlords are over a barrel in many ways and having to take very little in the way of rental payment. That should come through—the assessors will start to find that. That issue is another reason to question the estimations for the growth in NDR over the next few years.

**Douglas Lumsden:** I guess that the risk would be too high for people to build speculative

developments without knowing that they would have a guaranteed rental at the end.

**David Melhuish:** Developing is a lot more complex and a heck of a project. A lot of risk is part and parcel of that project. For reasons that were explained earlier, developers will have the cost of holding properties while they try to revitalise them and bring them back into use. There are regulatory processes that need to be gone through—the planning process and so on.

The business growth accelerator relief was intended to help speculative development but, at the moment, we are in a very risk-averse world, and have been since the financial crash. Arguably, we had only just begun to see the flickers of recovery, even in certain parts of the central belt. That is a deep concern.

The empty property rates policy, which is being transferred in a year's time and will affect a huge number of public ratepayers with vacant properties, needs to be rethought. All that we are asking is for our members to have a chance to get some of the empty properties back into effective use, which might well be a change of use.

**Douglas Lumsden:** A lot of local authorities will have people queueing up at their doors expecting them to be able to do something about rates relief. We see the same thing in relation to the local rates relief schemes that they have the power to introduce but not the money to do so. We heard earlier about the squeeze on local government resources. I am concerned that your members will queue at the doors of local authorities that have no money to offer any schemes.

**David Melhuish:** Yes. Our members do not want to be in that situation. They want to produce new properties to support the tax base. However, at the same time, with the pressures that they have, it is hard for them to try to regenerate our towns and city centres if they have to fork out a lot of tax and rates when they do not have the income to cover it.

**Douglas Lumsden:** I guess that the key point is that, if we really want city centre regeneration, we need to have proper schemes in place at a national level because local government cannot afford to provide them.

**David Melhuish:** I believe that discussions will take place with the Government as it transfers the empty property relief policy but we do not know where those will lead to.

**Michelle Thomson:** Alastair Sim, you quoted a figure per head for students. What is the overall percentage of Scottish Government funding for the universities sector? I ask because I am not sure of the figure.

**Alastair Sim:** The figure varies hugely by institution.

**Michelle Thomson:** What is the aggregated figure?

**Alastair Sim:** Aggregated, I think that it is about 35 per cent—I thought that I had the figure with me. It varies greatly by institution. The University of the Highlands and Islands and the University of the West of Scotland get about 60 per cent or 70 per cent of their funding from the Scottish Government but, for the University of St Andrews, the figure is more like 15 per cent.

**Michelle Thomson:** Do you know what the aggregated percentage is for the rest of the UK? I am just interested.

**Alastair Sim:** The position is radically different in England and Wales because of their fees structure. Even though the money that their universities get per student is £9,250, it comes to them through the Student Loans Company and is not counted as Government expenditure. In accounting terms, their dependence on Government funding is much lower. In actual terms, they are able to cover their costs relating to teaching home students in a way that we cannot, because we get funding for less than 90 per cent of those costs.

**Michelle Thomson:** That leads me on to my main question. The committee was helped ably by the clerks in devising the call for evidence for the inquiry. One of the questions that was asked was:

“Does the framework properly reflect the current economic and political context?”

I was a bit surprised that neither the SCVO submission nor the Universities Scotland submission reflected on the political context. In the answer that you just gave, you clearly highlight a political context: the rest of the UK has gone down a fees route and levied loans on students, but the Scottish Government has elected not to do that. I do not know whether this figure is correct—it is probably a few years out of date—but in Holland, for example, the aggregated figure for funding to universities from central Government is 61 per cent. There is clearly a stark difference.

I was surprised not to see a reflection of the political context in the Universities Scotland submission, given the comment about

“attracting a working-age population from outside our borders”.

As we know, Scotland has been greatly affected by Brexit.

Paul Bradley mentioned SNIB. I agree that £2 billion in capital expenditure is a low figure. I would like it to be much higher.

My question to all three witnesses is: what makes you avoid that political context? I am well aware that we live in polarised times in Scotland. I understand that, and I do not see it from one side of the fence; I merely recognise it as a fact. As a relatively new member, I see that people who give evidence to this committee and to the Economy and Fair Work Committee are reluctant to tell it how it is for fear of getting into a debate that is quite polarised at the moment. From my point of view, as a member of this committee, which is interested in the numbers and the financial transactions, that reluctance inhibits understanding. We saw that earlier when we talked about COSLA and CIPFA.

In the light of your comments this morning, would you like to add anything that is not in your submission in relation to the question:

“Does the framework properly reflect the current economic and political context?”

**Alastair Sim:** Yes.

**Michelle Thomson:** Now you are on it.

**Alastair Sim:** Let me not be inhibited. As I have alluded to, the political and economic context for Scotland must be ambition for growth. It must be inclusive growth and green growth, but there must be an ambition for growth, because it is a good thing in itself. It provides opportunities for people and creates a virtuous cycle by engendering tax revenue that supports the decent public services that we all want. That was not front and centre in the spending review consultation in the way that it should have been.

12:15

You asked about the contrast between Scotland and England in policy positions on how we fund students. There is now a broad cross-party consensus in Scotland that publicly funding students is the right thing to do, but that puts an increased onus on the Scottish Government to step up to the mark and fund students properly. In England, the Government has slightly stepped away from that responsibility. In Scotland, given the strong political consensus that students should be publicly funded, there is a strong argument that they should be properly publicly funded at a level that reflects the costs of teaching them and of providing them with the services that they deserve. Funding has been substantially eroded since way back in 2010-11—the last time the Scottish Government examined its position on universities—when the decision was made to plump firmly for that policy on a permanent basis. Since that widely supported policy was chosen, it has been maintained, particularly since 2014-15, but the funding for it has been eroded.

**Michelle Thomson:** I knew that you would enjoy that opportunity. Thank you for that.

Would the other two witnesses like to add anything on that question with some thoughts that might have been triggered by today’s discussion?

I see that Paul Bradley is taking a deep breath.

**Paul Bradley:** No—I do not really have anything to add. I do not think that we hold back as an organisation in highlighting the issues that we think exist, but I know that many charities feel that they have to do so because of their funding arrangements. However, in my five years at the SCVO, I have not felt like that, and I want that to come across in our responses.

We were clear with the committee in the course of pre-budget scrutiny about the need for the Scottish and UK Governments to consider how they work together to navigate multiyear funding issues. We are, of course, careful about treading into difficult areas that we should not be treading into as a voluntary organisation and as a registered charity, but our submission is purely about what the Scottish Government is going to do. It now has the power to deliver a multiyear spending review, and that is what we wanted to focus on.

In other places and in other submissions, we have focused on the UK Government, but, in this case, we have been focusing solely on the Scottish Government’s allocation of funding to voluntary organisations and to local government—with, I hope, funding going from local government to voluntary organisations.

**David Melhuish:** The question is a huge one. I guess that, as an interest group, we tend to focus on policies rather than politics, as politics can change very quickly. We are keen to work with the Government and Opposition of the day, whoever they are, in the broadest sense.

Earlier, we suggested that there ought to be enhanced borrowing powers for the Scottish Parliament. The differential in what the Scottish Government can borrow compared with what can be done by the Public Works Loan Board and individual councils—we have seen some of the great things that Dundee City Council has done and led in making use of enhanced borrowing powers—seems to us to be a clear demarcator that shows that a better agreement could be found somewhere along the line. Ms Thomson is probably right that, usually, we do not enter into too much of a political diktat. However, we think that some improvements could be made in those balances.

**Michelle Thomson:** Thank you very much for that.

**The Convener:** That appears to have exhausted the committee's questions. I thank our witnesses for their excellent evidence today.

*Meeting closed at 12:18.*





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