



OFFICIAL REPORT  
AITHISG OIFIGEIL

# Finance and Public Administration Committee

Tuesday 20 September 2022

Session 6



The Scottish Parliament  
Pàrlamaid na h-Alba

© Parliamentary copyright. Scottish Parliamentary Corporate Body

Information on the Scottish Parliament's copyright policy can be found on the website - [www.parliament.scot](http://www.parliament.scot) or by contacting Public Information on 0131 348 5000

---

**Tuesday 20 September 2022**

**CONTENTS**

	<b>Col.</b>
<b>SUBORDINATE LEGISLATION</b> .....	1
Scottish Landfill Tax (Prescribed Landfill Site Activities) Amendment Order 2022 (SSI 2022/233) .....	1
<b>PUBLIC FINANCES 2023-24 (IMPACT OF COST OF LIVING AND PUBLIC SERVICE REFORM)</b> .....	5

---

**FINANCE AND PUBLIC ADMINISTRATION COMMITTEE**

**23<sup>rd</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:**

Tom Arthur (Minister for Public Finance, Planning and Community Wealth)

Charlotte Barbour (Chartered Institute of Taxation)

Stephen Boyle (Auditor General for Scotland)

Kirsty Flanagan (Chartered Institute of Public Finance and Accountancy)

Councillor Katie Hagmann (Convention of Scottish Local Authorities)

Paul Manning (South Lanarkshire Council)

Susan Murray (David Hume Institute)

**CLERK TO THE COMMITTEE**

Joanne McNaughton

**LOCATION**

The Robert Burns Room (CR1)



# Scottish Parliament

## Finance and Public Administration Committee

Tuesday 20 September 2022

[The Convener opened the meeting at 14:15]

### Subordinate Legislation

#### Scottish Landfill Tax (Prescribed Landfill Site Activities) Amendment Order 2022 (SSI 2022/233)

**The Convener (Kenneth Gibson):** Good afternoon and welcome to the 23rd meeting in 2022 of the Finance and Public Administration Committee. The first item on our agenda is to take evidence from the Minister for Public Finance, Planning and Community Wealth on the Scottish Landfill Tax (Prescribed Landfill Site Activities) Amendment Order 2022. Mr Arthur is joined by Robert Souter, who is a senior tax policy adviser at the Scottish Government. I welcome them both to the meeting, and I invite Mr Arthur to make a short opening statement.

**The Minister for Public Finance, Planning and Community Wealth (Tom Arthur):** Thank you, convener, and good afternoon to the committee.

The Landfill Tax (Scotland) Act 2014 provides for the Scottish ministers to prescribe specific landfill site activities, with the effect that those will be treated as taxable disposals regardless of whether they meet the three conditions that are set out in section 3 of the Landfill Tax (Scotland) Act 2014. Those powers are exercised through the Landfill Tax (Prescribed Landfill Site Activities) Order 2014.

The Scottish Landfill Tax (Prescribed Landfill Site Activities) Amendment Order 2022 provides additional confirmation about whether a taxable disposal has been made and ensures that there is clarity for taxpayers and their customers. It amends the existing prescription of cell bunds to specify that the use of material to construct or maintain a cell wall is a taxable activity. It also provides that, in addition to the current list of prescribed activities, any other use of material in a landfill cell will be taxable, with certain listed exceptions.

Although additional landfill site activities are prescribed, the effect of the amendment order is to confirm what the Scottish Government considers to be the existing scope of the tax. It is intended to

provide additional certainty for taxpayers and their customers.

In order to minimise any potential period of uncertainty, and as provided for in the Landfill Tax (Scotland) Act 2014, the amendment order was introduced using the provisional affirmative procedure, and took effect from 1 July 2022.

The Scottish Government's view is that the amendment order also ensures that the scope of landfill tax in Scotland continues to be consistent with that in the rest of the United Kingdom.

I am happy to take questions.

**The Convener:** Thank you very much. I take it that that last point is about avoiding what we might call waste tourism. Is that correct?

**Tom Arthur:** A number of considerations have played into having consistency with the rest of the UK, but yes: when it comes to the way in which the landfill tax operates—the committee will be familiar with the setting of landfill tax rates—avoiding waste tourism has been a key concern in taking the decisions.

**The Convener:** The Delegated Powers and Law Reform Committee said:

“it would be helpful for the Scottish Government to provide a fuller explanation of the reasons for the timing of the instrument”.—[*Official Report, Delegated Powers and Law Reform Committee*, 6 September 2022; c 1.]

Can you help us with that?

**Tom Arthur:** Certainly. I note that, in its report, the DPLR Committee accepted the reasons that we provided.

Fundamentally, in November and December of last year, we consulted on a proposal for the amendment order. As the committee will appreciate, we took some time to consider the responses that we received via that consultation, and to engage in further discussions with stakeholders. There was then a decision from the Upper Tribunal for Scotland, which was publicised in May and which, naturally, we wanted to take further time to consider. In effect, therefore, the first practicable date on which to make and lay the order was 1 July. Given that we need to provide certainty and clarity to taxpayers and their customers, it would not have been appropriate to wait until after the summer recess had concluded.

**Liz Smith (Mid Scotland and Fife) (Con):** On that point, I think that we have accepted that there was a slight issue about scrutiny and, rightly, you have given the reasons for that. However, it raises a slightly wider point, which the DPLR Committee has raised with regard to other issues: namely, that if there is a problem about the timescale, because of recess or other factors, it is important that there is effective scrutiny. Can you assure us

that that general issue of scrutiny of such technical matters will be dealt with by the Scottish ministers?

**Tom Arthur:** Absolutely. I very much appreciate that point. It was only because of the unique circumstances pertaining to the amendment order that we found ourselves laying it on 1 July. We are absolutely committed to ensuring, where possible, that we can provide the maximum opportunity for Parliament to scrutinise all legislation.

**John Mason (Glasgow Shettleston) (SNP):** On the same point, I know that the DPLR Committee has not been happy in the past about the number of uses of the made affirmative procedure. I understand that there is an argument for that in this case.

There has also been a suggestion that Parliament could have used an expedited procedure, which would have meant that the amendment order would not have been subject to made affirmative procedure. It would still have been subject to scrutiny by Parliament, but Parliament could have agreed to look at the issue more quickly than is normal. Was there no option to do so in this case?

**Tom Arthur:** The options that were available to us were those that are set out in section 6 of the Landfill Tax (Scotland) Act. What we did was consistent with the order-making power within those provisions.

Any question about the more general use by ministers of the provisional affirmative procedure would more appropriately be addressed to the Minister for Parliamentary Business.

I reiterate my point to the convener: it tends to be the case that we are required to use the affirmative procedure only in very specific circumstances. We use it only when that is absolutely required.

**John Mason:** Thank you for that answer, but I want to make the point that the COVID 19 Recovery Committee looked at the matter in quite a lot of depth, as did the DPLR Committee. I think that there is scope for an expedited procedure, in which committees would agree to take a bit less time and to look at something more urgently if it is urgent. I accept that that is not always possible.

**The Convener:** That has exhausted our questions.

Item 2 is formal consideration of the motion on the instrument.

*Motion moved,*

That the Finance and Public Administration Committee recommends that the Scottish Landfill Tax (Prescribed Landfill Site Activities) Amendment Order 2022 (SSI 2022/233) be approved.—[Tom Arthur]

*Motion agreed to.*

**The Convener:** Thank you for your time today, minister.

I suspend the meeting to allow for a brief changeover of witnesses.

14:22

*Meeting suspended.*

14:37

*On resuming—*

## Public Finances 2023-24 (Impact of Cost of Living and Public Service Reform)

**The Convener:** The next item is our first pre-budget evidence session on Scotland's public finances in 2023-24, focusing primarily on the impact of the cost of living and public service reform.

I welcome Stephen Boyle, who is the Auditor General for Scotland; Charlotte Barbour, who is the vice-president of the Chartered Institute of Taxation; and Susan Murray, who is a director at the David Hume Institute. We will move straight to questions.

Stephen, I will start with you. In your submission, you say that the Scottish Government "needs to plan how it manages the long-term sustainability of"

social security spending and

"be clearer how it will improve outcomes for Scottish people."

Is that happening, in particular with reference to how the national strategy for economic transformation is helping to grow the economy?

**Stephen Boyle (Auditor General for Scotland):** Good morning. I apologise; I mean good afternoon, convener and members of the committee—that was force of habit.

The committee will be familiar with the fact that, earlier this year, Audit Scotland published a report on Social Security Scotland. We noted that the agency had made progress during a challenging period, particularly in the light of the pandemic, and that it has continued to roll out devolved benefits arrangements in Scotland.

The convener has rightly highlighted a couple of the conclusions in that report, one of which is about the long-term financial implications of the increasing benefits arrangements in Scotland. We note the divergence of Scotland's benefits arrangements from those in the rest of the UK, and the fact that, unless that is carefully managed—we expect that it will be—it will create fiscal pressures on the Scottish budget. We note that, and it is one of the recommendations in the report. That report is still going through evidence arrangements with other committees, so we await the outcome of those discussions.

We also point to the finding that you referenced about the longer-term impact of devolved benefits arrangements in the country and the question

whether they are producing the intended outcomes. We recognise that it is still relatively early days in the roll-out of benefits, so it is probably too soon to say whether the agency can be confident about the impact of its new additional spending on devolved benefits.

**The Convener:** You did not refer to the national strategy for economic transformation in that response. Can you touch on that point?

**Stephen Boyle:** I cannot say anything further on whether that work is happening yet. Further work is planned on the continued roll-out of benefits arrangements, but we have not yet mapped the roll-out to the national strategy for economic transformation. We can keep that work in mind for our follow-up programme.

**The Convener:** People can jump in if they wish to add anything, although the submissions are all quite distinct, so I do not think that there will be much overlap in my questions except in one or two cases. If you wish to contribute, please feel free to do so—I should have said that earlier.

Charlotte Barbour, you said that you wished to draw attention to dividend taxation in particular, which is

"set at UK level"

and

"is a standing invitation to higher rate Scottish business income taxpayers to consider remaining within lower UK rates of taxation by incorporating their businesses and paying corporation and dividend tax, rather than paying Scottish earned income tax rates."

What is the impact of that in revenue loss to Scotland? What is the potential for it to be a serious issue?

**Charlotte Barbour (Chartered Institute of Taxation):** I do not have precise figures for how much that happens. As tax advisers, we always consider whether a self-employed business should be unincorporated or incorporated. That has always been the case, both when we were advising on UK taxes in times gone by and, more so, now, when we are advising on Scottish taxes. Much of the issue attaches to the question of national insurance. If the national insurance rate goes down this Friday, that might, or might not, lessen those considerations.

Susan Murray might have information about the ways in which people work, which will also help to inform the matter. The issue relates to those who have their own businesses. HM Revenue and Customs works hard to stop businesses being artificially incorporated. It will be interesting to see where that goes, because my sense is that the new UK Government will put more focus on how people work and how they are taxed as time goes by.

I do not have precise numbers now, but to decide whether to incorporate is very standard tax planning in a sole trader's business. Part of that decision is around whether you are rewarded in dividends for the capital that goes into the business or you are rewarded for your actual work, which is about Scottish taxes. That decision has a tax consequence for the person who pays the taxes, and it has a slightly wider context in Scotland compared to south of the border. There, the question is just whether the Government gets income or corporation tax, but here the question is whether what is raised is income tax on salaries or tax on dividends, which goes into the UK and, presumably, then flows back through the block grant adjustment, although that process is not very visible.

**The Convener:** No, it is not.

You have also said that this is an obvious area in which to consider further devolution—I do not know whether the UK Government would consider that. It is uncertain whether increasingly differentiated tax rates between Scotland and the rest of the UK will reduce the attractiveness to higher earners of coming to Scotland. That matter was talked about years ago, as you will be aware. What research has been done about that question over the years? I have seen research from other countries that says that a 2 or 3 per cent differential does not make much difference to behaviour—you will not move everything because of a 2 or 3 per cent difference, but you might if it is 6, 7 or 8 per cent. Has any research been done as to where the tipping point might be in relation to Scotland and the rest of the UK?

**Charlotte Barbour:** I think that the conclusion of much of the research that has been done on those kinds of issues is that you cannot really tell where the tipping point is until you have gone past it, when it is a bit late to retrieve it.

There are two issues here. One is for people who are located in Scotland, who might not move for the sake of 2 or 3 percentage points. Of course, the discrepancy gets wider the higher up the income scale you go. Where you might have discrepancies is among people who might or might not relocate to Scotland. I presume that that might influence someone's decision whether to be a doctor in either Newcastle or Edinburgh.

14:45

**The Convener:** Yes, I appreciate that. Obviously, I will be asking other questions, but I see that Stephen Boyle wants to come in on this issue.

**Stephen Boyle:** I just draw the committee's attention to the fact that a regular feature of the conversation that the Public Audit Committee has

on the Scottish rate of income tax is the work that the National Audit Office undertakes on income tax collection arrangements and the assurance that accompanies that, which Audit Scotland provides. As Charlotte Barbour says, there is no strong evidence to suggest that the behaviour of Scottish taxpayers is being influenced strongly by the differential that exists between Scottish income tax rates and those in the rest of the UK. One feature of the discussion that sticks in my mind is not so much whether people will move, as Charlotte said, from Edinburgh to Newcastle, but rather the identification of primary residence for those individuals who are able to choose which residence that might be. If it is of interest to the committee, we can share some of that material.

**The Convener:** It would be useful, because the people who are most mobile, who are also the people who could pay or be liable for the highest level of taxation, are always of significant interest.

I am intrigued that Susan Murray's submission mentions open data. It says that

"over 95% of the data that could be open is still locked up, at an ... annual cost to the Scottish economy of just over £2bn."

I was struck by the size and scale of that figure. I took it that you meant the wider Scottish economy, not just the public sector, but if that is the case, what is the split, how can or should that data be opened up and over what timescale do you envisage that happening?

**Susan Murray (David Hume Institute):** We wrote a document earlier this year with Open Data Scotland, which is the expert in the area. It analysed not just Scottish Government data but local authority data, to work out how much was locked up and how much could not be got at.

We came to work in that partnership because we were trying to map something for which everyone had told me that the data was there, it would be really easy and I should just do it. We managed to get funding for 50 per cent of a post and we got a whizzy data analyst in from CodeClan, who was amazing, but when we tried to collect the data from local government websites, we realised that it was all under copyright. We were a bit shocked by that. We were not aware of it and thought that the data would be under local government licences. The further we got into that project, the more we realised that it was not as easy and simple as we thought it would be, so we wrote the process up on a data website called GitHub. We have not been able to take that project further forward because the funding ran out, but everything is there for someone to pick up if they want to.

However, we formed the relationship with Open Data Scotland, and the more we learned about



data, the more we learned about how much was locked up and how people were beginning to try and monetise it. That is the opposite of what is going on in some other countries, where they have opened everything up and said to people, “Here is the data. Go play with it and see what you can do.” That is leading to some interesting innovations. The case study in the briefing—I can forward it to the committee afterwards, if you would like—is on the Helsinki Region Infoshare, which has some really good things that have come out of opening up.

However, you cannot always plan what people will do with your data. Once you put creative people in a room with data, they can do interesting things with it. There is data from the pandemic, when people were experimenting with websites and what was available, showing that use of the Scottish land register more than doubled in about six months. It had not been advertised, but people just started experimenting with what was on the web and seeing what was there, and more things have come out of that.

**The Convener:** It seems a colossal sum of money, to be honest, and 95 per cent of data being locked up also seems a very high percentage. How did you come to those figures and, again, what is the split between the private and public sectors?

**Susan Murray:** It is all detailed in the paper. It is quite complicated, so I can send that through after the meeting.

**The Convener:** Given the amount of money involved and the pressure on our finances, I think that, complicated or not, it is something that we have to look at, is it not?

**Susan Murray:** It is definitely worth looking at. If you had asked me about it this time last year, I would have been completely in the dark about how other countries were doing it and how we were doing it. We had written a strategy that said that we were going to do it, but we were not quite doing it. The Scottish Government website is covered by what is called an open government licence, but even within that, there are some portals that are not as easy to access. It is very complicated. I am sorry that I cannot explain it in much more detail, but I can tell you who to call if you want to know more. Ian Watt of Open Data Scotland is amazing on it—that is who we wrote the paper with.

**The Convener:** They used to say, “Where there’s muck, there’s brass.” Now it seems to be data. Things have certainly moved on from when I were a lad.

Stephen Boyle, you refer in your submission to Audit Scotland’s report, “Addressing climate change in Scotland”, which contains

“a high-level summary of the key improvements that need to be made across the public sector if Scotland is to reach its climate change ambitions”.

Can you provide some examples of those improvements, the cost and the delivery timescale?

**Stephen Boyle:** Probably not in the detail that you would want this afternoon. It is not that there is not ambition—clearly, addressing climate change is one of the Government’s priorities—but the collective understanding of what it will take to deliver net zero is still evolving across the public sector.

Our work is continuing in that area. We are thinking carefully about where we should best position the public audit response to the climate ambitions. Our next item of work will look at some of the leadership and governance around net zero and climate ambitions—we will publish that next year. We know that public bodies have, individually, produced action plans. The extent to which those will be delivered really matters, as does whether there is openness and transparency about it, and where they sit alongside other priorities. However, I am probably unable to give you a precise answer today.

**The Convener:** You are just teasing us, really, aren’t you? You throw these fabulous quotes into your submissions and I think, “That’s great. I’m going to ask about that, and see what it’ll mean for the 2023-24 budget.” I am not trying to ask this in a facetious way, but then you tell me—as with the previous question—that work is on-going. It is a bit frustrating, from a finance perspective, when we are looking to make recommendations for the 2023-24 budget. Is there any possibility that we will get more meat on the bones in the weeks ahead?

**Stephen Boyle:** Not in the timescale for the committee’s budget scrutiny for this year.

All public bodies, including the Government, should have a clear expectation about their longer-term financial planning and what that means for the delivery of their net zero obligations. We would expect that information to be available. It is consistent with other comments that we have made in the submission that public bodies—the Government, too—need to have clear, costed plans for the delivery of budget, whether it is efficiency savings or climate change obligations.

**The Convener:** Susan Murray, in your submission you call for more spending on public transport. Can you specify how much more, and what it should be allocated to—buses, ferries or rail? Where can that funding be sourced from?

**Susan Murray:** I saw that in the committee briefing—I am not quite sure that that was my exact wording. What we were saying was that, if

your priorities are—as clearly stated—to reduce child poverty and achieve your net zero targets, one of the things that would help with that is more spending on public transport. However, there has got to be a give and take. Where will the money come from? At the moment, I have so many questions about exactly how much money there will be, because we have got a big fiscal event on Friday. It is hard to say what you will take money from when you do not know quite how things will pan out and on what timescale changes might happen.

That even applies to announcements that have already taken place. I do not know whether I can say this, but I bumped into David Bell while I was waiting to come to committee. I said to him, “The bankers’ bonus announcement has been bothering me. What does that mean for the fiscal framework?” If the average median salary goes down—although, as David Bell pointed out, salaries do not tend to go down—but the bonus goes up, does that mean that the bankers’ bonus is better for the fiscal framework than not? There are so many moving parts at the moment. I do not know the exact amount to spend on public transport, but I do not know the exact amount for anything at the moment, because so much of it is moving. How on earth do we do scrutiny? It is tricky.

**The Convener:** That is what we are trying to grasp, which is why we are relying on the evidence of our witnesses.

**Susan Murray:** I will give examples from other places in the world. Germany has offered a €9 monthly travel pass, which has led to a phenomenal drive in the economy in that people who do have money to spend have taken days out. There is a great quote, which I think is from a BBC article from this morning, from an 80-year-old who has done the trip of a lifetime around Germany. We could offer a travel card such as the one that was available for the 26th United Nations climate change conference of the parties—COP26—that could make it easier for people to travel. However, how would that work alongside the push to encourage people to come back into offices? Organisations with big car parks that are not being used have provided free car parking spaces, which means that their staff are now driving to work whereas they used to take public transport. So many things are moving at the moment and are happening in different ways from how they used to that the position is really tricky. Another factor is that some people are still reluctant to use buses because they feel that there is more chance of catching things.

**The Convener:** If you cannot put a figure on it in pounds, shillings and pence or anything of that nature, then over which other areas should

transport be prioritised? Perhaps the best that we can envisage would be a static budget—it would probably represent a decline in real terms but be static or slightly higher in cash terms—so we will have to prioritise. If you are saying that we should spend more on public transport, for example—I ask about that because you specifically mentioned it in your submission—what should it be prioritised over?

**Susan Murray:** It is a tricky question. From all the submissions that it has received, the committee will have seen that everyone wants their area to be spent on. No one is saying that we should not spend on certain areas.

We are trying to look across the piece and ask whether your priorities—for example, the child payment, net zero targets and health and social care spending—meet the priorities that have been set in the budget, which was what your question was about. We think that they do, but then we must ask what could be deprioritised. It is difficult to see the detail in the spending announcements that were made last week. There are big numbers around what might be cut, but it is tricky to know which programmes will be affected.

When we were looking at the numbers, we could see that there is support to help people to claim additional benefits. For example, I think that the committee has previously discussed the uptake of pension credit, which has been really low—it is down at 40 per cent. If you could get more people to take it up, that would be a good use of money, because then they might not be claiming something else. Everything seems to have a balance, and elements will move up and down depending on what your intervention is.

**The Convener:** Charlotte Barbour, I have a straightforward question for you. Given current levels of wage increases, and assuming that there will be no change in the higher-rate tax threshold in Scotland, how many more Scottish taxpayers will be caught in fiscal drag from next April?

**Charlotte Barbour:** That is an interesting one, isn’t it? Despite liking the tax system and being a tax adviser, I am not necessarily that genned on where wages will go, but, obviously, if you set thresholds and do not increase them, there will be quite significant fiscal drag. Recent surveys and research that I have read say that the more inflation there is, the more there will be fiscal drag. I have also read other views that question that. Inflation is coming through food, petrol and energy prices, and I am not sure that wages are keeping up with those.

**The Convener:** I do not think that they are; it is quite clear that they are not.

**Charlotte Barbour:** But if wages are not keeping up to the same extent, clearly you will not

have increased wages that therefore take in more tax, will you?

**The Convener:** If inflation is at 10 per cent and wages go up by 7 per cent, on average, that will still take a huge chunk of people into higher taxes and then they will be liable. Therefore of the extra money that they might get through a pay increase a higher proportion will be taken in taxes.

**Charlotte Barbour:** Absolutely.

**The Convener:** I ask that question because, although that will not be particularly welcomed by those who are impacted by it, for the Scottish Government, it will mean that there is additional revenue for the plethora of organisations that, understandably given the current situation, want additional funding.

15:00

**Charlotte Barbour:** Generally, fiscal drag and freezing allowances do not tend to feel as painful to people as telling them that you are putting something up. However, that comes down to political presentation, and freezing allowances is often an easier option. However, we also need to look at the moving parts. I echo what Susan Murray said in that we do not know where we will sit with regard to what might or might not be announced on Friday. You could measure fiscal drag per se here, now, but mixed in with that is the balance of how people view things vis-à-vis what happens south of the border—what the situation is there and whether personal allowance or anything else is increased. Of course, personal allowance is the factor that most affects Scottish income tax and who pays it in the first place.

**The Convener:** Susan Murray, you talked about the need to remove the barriers to work. Which specific barriers need to be removed as a priority?

**Susan Murray:** May I add something on your last question before I answer that?

**The Convener:** Yes, of course.

**Susan Murray:** I do not know whether you noticed but, last week, Office for National Statistics figures showed the number of over-65s returning to work. That was the first time that we have seen fairly significant numbers for that. In general, they are returning to work part time, but it is an interesting phenomenon that over-65s are supplementing their pensions. Will that continue? We have not yet touched on behaviour with regard to tax. We have talked a bit about fiscal drag but not about whether the cost of living crisis is having an impact on whether people want to earn more money, and they might. The other ONS numbers that were released were for the places with the largest increases in the employment rate, and

Scotland was one of those places. Therefore, these are good signs.

I am sorry—I have forgotten your last question.

**The Convener:** You suggested that barriers to work need to be removed, so my question was about which barriers should be removed.

**Susan Murray:** Those with a disabled person in their household face one of the biggest barriers to work. Being a carer is a really big barrier. This morning, I was reading a report—I will get the name of it—that was published earlier this year about the effectiveness of the support for individuals who are furthest from the workplace. Although the take-up had been lower, the effectiveness of the support was deemed to be really good, with long-term consequences for those households. Those are good signs. If we can get the people who are furthest from the workplace back into work but with a package of support around them, that will be good in the long term.

**The Convener:** Thank you.

Stephen Boyle, I was astonished to read in your submission that

“there are over 40 different regular financial outputs published by ten government departments or public bodies”.

How can those be rationalised and made more transparent, and what savings might ensue?

**Stephen Boyle:** The committee might be familiar with a report that was produced by the Scottish exchequer, which is a department of the Scottish Government. The “Scottish Exchequer Fiscal Transparency Discovery Report” looked at some of the publication arrangements and touched on the matters of open data and transparency that you expressed an interest in earlier, convener. That is a good start, as it is important that the scale of the challenge is recognised. On the timescales for that, we note that it will be 2025 before the Government sets out how it intends to rationalise and move to a clearer set of financial documentation and the open data that we hope will go alongside that. I imagine that the committee will be interested in whether 2025 represents a sufficient pace of movement on rationalisation.

You will be familiar with the fact that, for many years—and particularly during the pandemic—we have called for greater transparency on spending announcements, budgets and reported financial information. The pandemic was an event for which the traditional budget-setting arrangements and financial reporting did not lend themselves to spending across multiple Government departments. There are other live examples—the cost of living might be one—including climate

change and the Government's other priorities, such as child poverty, of where spending will be required across a number of departments.

At the moment, that is as much as we know about the Government's progress on that. We welcome the planned improvements as well as the recognition of the scale of the challenge, and we are keen to see progress on that front.

**The Convener:** From a previous life, I recall that the McClelland report talked about rationalising information technology across Scotland. Has that not happened? It does not seem to have, given that you say that financial reporting has 40 different outputs. I can imagine that there would be a few—possibly, annoyingly—but is it necessary to have 40?

**Stephen Boyle:** One of the key features of the resource spending review was that the fiscal environment that the country is in means we require efficiency savings, and that those will need to be costed with clear timescales and responsibilities, and alongside that is the committee's other interest in public sector reform. That has to be done in a clear and transparent way, so that the impact is known and the anticipated outcomes are clearly set out for users of public services and for public bodies. Whether we reference the learning from the McClelland report or the review that was undertaken recently, pace is required to support public and parliamentary understanding of the decisions and changes that are coming.

**The Convener:** Absolutely, and we also need to make those changes in order to generate savings. I have noticed that no one seems to be putting any pounds, shillings or pence on anything today.

My last question before we move to questions from my colleagues around the table is for Charlotte Barbour, and it is a straightforward one. In your written submission to the committee, you called for the devolved taxes legislation working group to be reconvened as soon as possible, so who should chair that group?

**Charlotte Barbour:** That is an interesting question. The last time it met, it was convened by the clerk to your predecessor committee, and that worked well. The decision needs to be made between this committee and the Scottish Government. The devolved taxes legislation working group's membership was equally split between those from the Scottish Government, those supporting the committee and external representatives.

I was involved in the Welsh Parliament's Finance Committee's deliberations on a similar sort of exercise, and it is quite tricky, so I think that the working group would probably be best served if it had political leadership.

**The Convener:** Do you think that the Minister for Finance and the Economy should be the chair, perhaps?

**Charlotte Barbour:** Yes, or it could be chaired by you. I must admit that I had not given specific thought to who I would nominate as chair, so those answers have come off the top of my head.

**The Convener:** My reason for asking is that you mentioned the working group in your submission.

**Charlotte Barbour:** Yes. The group worked very well before; it is one of the most interesting groups that I have been involved in. It dealt with a tricky issue, but it is an important one for a number of reasons.

The first is that the professional bodies do not think that it is appropriate for primary legislation, such as tax law, to be changed using secondary legislation. Everybody always responds to that by saying that we already use secondary legislation for rates increases and decreases, but rates are slightly different, because you can tell if the rate is 10 per cent or 11 per cent; it is crystal clear because people pay more or pay less. However, anything else imposes on the citizen and is part of your requirements around accountability and it is why tax is devolved. Therefore, changing that should be done after due deliberation.

The committee probably looks at most of the secondary regulations that come to it and sees the sense of them but thinks that it might be able to improve on them. However, of course, it cannot do that, because secondary legislation is all or nothing, and that does not help to get it as good as it can be. When some elements of Scottish taxation first became devolved, we wanted them to be fleet of foot and fit for purpose—those were the phrases that were used.

The devolved taxes legislation working group worked well and there was a lot of interesting debate. It is time to move on with that, and even if you did not use a finance bill, a lot—

**The Convener:** I was waiting for you to use those two words: "finance" and "bill."

**Charlotte Barbour:** Well, there you go—I got them in. Do you want me to say them again?

**The Convener:** No, because I am sure that others will ask you about that.

**Charlotte Barbour:** There could also be a tax committee.

If you had a regular process coming through this committee more visibly, that would help to inform people about their taxes. That is part of what we want to do in a budget—it is not just about what you spend but about how you get the money and how much you get to spend.

**The Convener:** Thank you very much for answering my opening questions. I will now allow colleagues in.

**Daniel Johnson (Edinburgh Southern) (Lab):** The convener will be delighted that you arrived at the right answer by suggesting that he should convene that body.

I very much approach the budget and the decisions that we have with my small business owner's hat on. We can look at all sorts of things in terms of complexity, but, to get down to brass tacks, a lot of it boils down to what the Government's expenditure is. What is optional and what is not? What is fixed and what is variable?

It is clear from Audit Scotland's submission that the Scottish Government's £22 billion payroll cost for direct and indirect staff is its single biggest cost. That contrasts with things that are mentioned in the submissions from the bodies that are represented in front us today and from others, such as £1.5 billion-worth of spend on procurement. That is small beer compared with the payroll cost. What are Stephen Boyle's thoughts on the Scottish Government's options on head count?

Critically—this is also mentioned in your submission—the Government's medium-term financial strategy assumes that the workforce will continue to grow at 1 per cent a year. To my mind, that stands in contrast to Government statements about reducing head count to pre-pandemic levels. What handle does the Government have on head count? Where is the Government thinking on how it will manage head count over the coming years?

**Stephen Boyle:** Good afternoon, Mr Johnson. You are right that, in our submission, we highlight that the pay bill is the single largest item of expenditure collectively. The amount is hugely significant even when compared with other items of large expenditure in the Scottish budget.

We note and draw reference to the medium-term financial strategy, which talks about pay awards of 2 per cent and 1 per cent growth across the workforce. If those figures vary and, for example, we have pay awards of 3 per cent and 2.5 per cent growth, that would result in a further £1.3 billion of expenditure by 2026-27.

If the Scottish public sector pay bill is steady or flat, given the pay awards that are being discussed—some are settled with public sector workers; others are not settled yet—that would inevitably mean a reduction in head count. Some of that can be done through natural wastage—for example, by people retiring and by not backfilling jobs. However, the basis of our submission to the committee is that that must be co-ordinated, perhaps alongside the Government's other plans for public sector reform, and done transparently.

We also note that not all that will necessarily be done on a cost-reduction basis. In any organisation, particularly given the existing level of workers' rights and protections, costs might need to be incurred as a result of spending money on or giving incentives to public service workers in the short term before leading to reductions in the longer term.

It is important—this is the point that I would emphasise the most—that action is not done on a piecemeal basis. It must be co-ordinated and fully connected to service delivery requirements and expectations and to the outcomes that are anticipated from Government spending. That must be done alongside the priorities, with full and proper connections to the national outcomes at the same time.

**Daniel Johnson:** Managing finances is complicated—I will come on to the 40 financial reports shortly—but I would suggest that managing people is even more complicated and difficult.

At the top end, the MTFs assumes 3 per cent pay growth, but that has been superseded by the most recent pay awards of 5 per cent. Are you saying that the Government's working assumption is that the payroll bill will essentially remain fixed and that it will therefore have to manage the head count accordingly? Secondly, are the systems and processes in place to enable it to do that? I think that that is being implied or stated in broad terms, but my fear is that without detailed work behind the scenes it could lead to some quite brutal outcomes for people who work in the public sector.

15:15

**Stephen Boyle:** I will take your questions in turn. In our submission, we draw on the medium-term financial strategy, which was produced at a time when inflation assumptions were not as they are now. We need to consider what that might mean for pay awards. As colleagues have mentioned, with the fiscal event at the end of the week and the Scottish Government's intention to hold its own budget arrangements very shortly thereafter, we will perhaps get an opportunity to see the response and more clarity about what that might mean for the public sector pay bill.

I do not have any further insight into the Government's assumptions about the pay bill, other than to refer to the medium-term financial strategy and the resource spending review. That clearly sets out an expectation that, for some parts of public sector services, there will be cash and real-terms cuts, and that in some sectors that will be people led. It cannot be anything other than that. If there is not going to be an increase in resource for pay, but pay award expectations are

still to be met, it is difficult to see that that will mean anything other than a reduction in head count for public sector workers.

I think that it is also safe to say that the UK Government's intention to reduce its civil service numbers to pre-Covid and pre-Brexit numbers will inevitably have a consequence for the devolved Governments across the UK and their settlements.

As Charlotte Barbour rightly referenced, this is not just about spending, because there could also be tax choices with regard to what might be needed to support that. However, we looked to set out in our submission that, if there is a reduction in head count, it will need to be managed really carefully and not on a piecemeal basis, and that there must be oversight in Government with clear and detailed workforce planning that goes across sectors and services, given the interconnected nature of public sector service delivery.

**Daniel Johnson:** Indeed. That raises some very big questions that go way beyond this committee's remit.

Moving on, given the complexity of what needs to be done and managed, I note that the ability to track what is spent against what is pledged in the budget is critical. Again, that brings me back to my experience in small business. I have posed this question before, but let me pose it again. The lack of clarity that exists on the public record is one issue, but to what extent are the Scottish Government's internal systems able to provide clarity? Those are two distinct questions. The lack of clarity is frustrating for us and there are public accountability issues, but there will also be delivery issues if systems and processes are not in place within the Government to enable it to track its spend against what has been budgeted for. Are such systems in place, in your view?

**Stephen Boyle:** I hesitate to give you a blanket assurance on that, because I have not done any recent audit work on the Government's systems for tracking the delivery of head count. A number of years ago, when I was involved in the day-to-day audit of the Scottish Government, I saw progress with its arrangements around workforce planning and the quality of the management information improved. However, I do not have current, up-to-date insight into how that is operating. Forgive me. I will speak to colleagues and see whether we can support the committee with further detail on that.

Over the next few months, we will be thinking carefully about what the Government's priorities for the fiscal sustainability of the public sector workforce in the country mean for audit work. However, going back to your direct question, I note that I am probably unable to give you the

detailed answer that you are looking for this afternoon.

**Daniel Johnson:** I will pitch one last question to both Susan Murray and Charlotte Barbour. I am interested in what you have said in your written submissions and this afternoon about things such as public transport and impacts on tax. We have had reference to the unemployment rate in Scotland, but the detail that is missing from some of that discussion is that we still have lower labour market participation rates in Scotland, among both younger and older people.

Is there sufficient thinking, in policy terms, about the linkages between what programmes the Government undertakes and their impact on tax receipts? In other words, given that we are now much more dependent on income tax growth, is there sufficient joined-up policy making that looks at how we both get more people into the labour market and grow wages for those who are already in it? Does that lie at the heart of the public transport question and the helping people back into work question that the David Hume Institute raised in its written submission?

I will put that to Susan Murray first, then to Charlotte Barbour.

**Susan Murray:** I have not audited—or whatever the correct word is—every single policy that the Scottish Government is pursuing. As an outsider, I see elements of joined-upness. I saw on the London underground the “Scotland is Now” campaign to attract people to work in Scotland. It said that Scotland has a better quality of life and that people should come and live here. From the numbers that I remember, that seemed to have had fairly good results.

There seems to be a concerted effort to help people back into the labour market. I was reading a report this morning—it was not called “Fair Work” but it had a name that sounds like fair work—from which it seemed that the interventions that have been made have been fairly successful. However, I note that employment support was one of the things identified in the budget cuts that were announced last week. I do not know what is going to be cut and what will be there in the future.

We have a demographic problem and we know that we have to grow our tax base. That has to be constantly watched. Regular tracking of the data coming in, to see who is joining and who is leaving the labour market, is really important.

**Daniel Johnson:** I put the same question to Charlotte Barbour. Does the Government think of tax as money in and spend as money out, and not make the link between the two?

**Charlotte Barbour:** I have spent all my working life trying to persuade people to think about tax,

with, perhaps, a modicum of success—I do not know. I will tell you one of the reasons why we would like the devolved taxes legislation working group to be put back in place and to bring an annual fiscal discussion to bear—I mean more widely than in this budget review, because a lot of this budget review is, to my way of thinking, spending focused. If we brought that tax more to life and had more debate around it and more consideration of it, that would filter through so that tax and spend become better joined up.

**John Mason:** There has been a lot so far, so I will try to build on that. The convener asked a question about data being locked up, which I am also interested in. Can you expand on that and can you give us an example of data that is not available and how, if it was, it would help the economy or whatever?

**Susan Murray:** The thing that brought our whole paper together was our project in which we were trying to map all the community infrastructure across the country—things where people would come together, such as village halls. We found out that you cannot scrape—that is the technical term—that data off local government websites, because it is copyrighted on most of them.

**John Mason:** Are you saying that the existence of a community hall is copyrighted?

**Susan Murray:** It is copyrighted only if you get that data off a local government website. If you get it from Google, it is not. You can get the data off Google, but you do not know whether it is accurate. However, you do not actually know whether the data on a local government website is accurate.

There was a whole data issue that we were looking at. It blew my mind that the text on local government websites is copyrighted, whereas the text on the Scottish Government website is subject to an open government licence, so anyone can use it or quote it.

That is the kind of thing that we are talking about, although it does not cover the issue of monetisation. What we were trying to identify was the easiest way for someone to find out where in their local community they could do something that they wanted to do.

We were looking at how to unpick Scottish index of multiple deprivation data, because we were worried about generalisations in the data meaning that funders were making choices about where money was going, but that that was possibly not correlating with the resources that were available to those communities. We were trying to map data to see whether the communities that were lowest in the SIMD had the lowest resources. It was really difficult to unpick that.

**John Mason:** I am still trying to get my head around this; I will give it another go.

If information about community centres and suchlike was more available, is it possible that more community organisations would be set up?

**Susan Murray:** That could be the case, and there could be an economic benefit.

However, the thing about open data is that you do not control what someone will do with it. It is not about, for example, me deciding that so-and-so needs that village hall data because they want to do X. You make data available and then things happen, although you might not necessarily know what the thing that might happen is. That is the tricky thing about open data. In the Helsinki region case study that is in the paper that I will send to the committee after the meeting, they did not know what would happen when they made the data about the region available.

The really interesting thing about data, and the more technical data analysts whom I speak to, is that when you put those amazing people in a room and their brains come together they go off at tangents that you could not have imagined at the start. Data can drive the economy, but it will not do so if you lock it down, because then those analysts will come up against barriers. That is where the problems come.

**John Mason:** I am absolutely for data being available. Is the £2 billion quite a rough figure?

**Susan Murray:** I can follow up with an email after the meeting to tell you how it was calculated, because I cannot remember off the top of my head how it was done. When Ian Watt did it, I said, “That’s massive—we’ve got to double check it”. We double checked it and then we triple checked it before we put it in the paper.

**John Mason:** I will leave it at that, although colleagues might want to follow up. It would be helpful to get that email.

Auditor General, in your submission, you talk about the fiscal framework being

“intended to incentivise the Scottish Government”

You say that, when the Scottish economy is doing well, tax revenues increase and that, when it is not doing so well, revenues do not increase. Would you be prepared to say that the fiscal framework is weighted against Scotland at the moment?

**Stephen Boyle:** That is not a position or view that we have reached. As the committee knows, the fiscal framework is under review, so I am inclined to leave that to the experts who are in the midst of that review. I will read their conclusions with interest.

**John Mason:** Does anyone else want to come in on that question? No. I realise that it is a sensitive issue.

We have already mentioned the interaction between income tax and corporation tax and the idea that people might incorporate. In the Chartered Institute of Taxation's submission, Charlotte Barbour, you also mention various other taxes such as capital gains tax and national insurance. There is a whole package in there. If more of those taxes were to be devolved, we could presumably come up with a more joined-up system. I read a Reform Scotland paper about tax—published in June, I think—that was quite interesting. Is it the Chartered Institute's argument that the position should be a bit more neutral, so that, if somebody incorporated, that should not make any difference? For example, they might put their profits into shares, which are subject to capital gains tax, but all the taxes on any kind of income could be set at the same rate—I think that some countries do that.

**Charlotte Barbour:** Obviously, you want to collect as much money as you can without enormous pain points or things that drive behaviours. I realise that this is wishful thinking, but what the Chartered Institute of Taxation is looking for is consistency and forward planning, and we would want it to be as simple as possible.

One of the things that we find interesting about the devolution of income tax is that, once income tax rates and bands are devolved, there is the option of changing them. If they are changed, that introduces differentials, which provide more scope to say, "Will you go down this route or that route?" Such considerations need to go into the mix to get something, because tax should not be the foremost driver, should it?

15:30

**John Mason:** No—absolutely. I will raise another point that may be linked. The David Hume Institute talks about

"the size of the envelope"

and

"growing the tax base"

Are you also thinking widely? Do you mean income-based taxes, land-based taxes or other taxes?

**Susan Murray:** We were thinking about the employment-based taxes that we have, about how we stop the demographic effects on the workforce and about the issues that will arise with an ageing population. The question is how we keep the labour market strong and thriving in Scotland.

**John Mason:** Will you expand on that a bit more? When you refer to the size of the envelope, what is the envelope?

**Susan Murray:** We were thinking primarily about the amount of tax that people pay in employment taxes.

**Charlotte Barbour:** The biggest source of funding is income tax. If you want more tax, full stop, income tax is your primary source to look to. You probably get more tax by having more taxpayers and more highly paid taxpayers. That is how to increase the envelope with the powers that you have.

**John Mason:** Are we too dependent on income taxes?

**Charlotte Barbour:** The package is what it is. We can say how it best works, but I will not comment on whether you are too dependent on one element or the other. The big taxes are income tax, national insurance and VAT, which bring in the money.

**John Mason:** Your submission mentions council tax, which has been reviewed but has not been changed for a long time. Are you a bit critical that we have not changed or replaced it?

**Charlotte Barbour:** I do not think that we are critical or not critical. Council tax is a lever that you have and it is more within your powers than, say, income tax. Council tax sits more separately and is completely within Holyrood powers.

**John Mason:** The main reason that is given for council tax not having been replaced is that nobody can agree on what should replace it. Will you go into what a good property tax or a good land tax would be?

**Charlotte Barbour:** I do not think that I will commit myself to that here—I am sorry.

**John Mason:** That is okay. Does the David Hume Institute have a view?

**Susan Murray:** The area seems to have been looked at quite a lot over the years. The fact that people still have not agreed and that nothing has changed surely shows that something is going on. Everyone agrees that change is needed, but no one can agree on what needs to change. Can we stop wasting time, get on and make a decision? That is my personal sense; I do not think that the David Hume Institute has written a paper that says that, but Jeez, come on—get on with it.

**John Mason:** I could pursue that, but I will maybe leave it where it is.

**Susan Murray:** At the moment, we also have a cost of living crisis, which is front of mind. Anything that would take time and energy away from dealing with the crisis will not be able to get that.



There is such a balancing act to be done with your time.

**John Mason:** Your submission says:

“there is little evidence that cutting income tax will ... boost economic growth”

Some people might be surprised at that.

**Susan Murray:** They might be surprised that we wrote that down or—

**John Mason:** At the fact that there is little evidence. We hear arguments from some quarters that cutting income tax is a good idea that will boost the economy, but you say that there is not much evidence for that.

**Susan Murray:** We have not seen much evidence. On BBC Radio Scotland this morning, Paul Johnson said that tax cuts almost never pay for themselves, and he made several other interesting comments. The Institute for Fiscal Studies is pretty up on all this stuff; if it is worried about tax cuts, that is an interesting sign.

**John Mason:** I did not hear that; I will read it afterwards.

**Ross Greer (West Scotland) (Green):** I will stick with tax and go back to John Mason’s line of questioning on council tax. As he said, Charlotte Barbour’s submission mentions the process that is in the Bute house agreement between my party and the Government on reform of council tax. The objective of that process is to replace council tax, but the committee is looking at the coming financial year, and we will not replace council tax in time for 2023-24.

Interim changes could be made to the current system—for example, the factor for calculating the rates could be changed, or reliefs could be altered or removed entirely or new reliefs brought in. Does the institute have any views on what changes could be made to council tax as it currently exists?

**Charlotte Barbour:** There is no specific list of wishes as to what should be changed. As Susan Murray just said, there were some robust studies around council tax not so long ago. It is a tax that raises a lot of money, so how would we replace that? One of the reasons that council tax has its pain points is that some people find it expensive. It is a difficult tax to replace, because it collects a lot of money without many problems with collection, although there might be problems with perception. It is a really difficult one to reform. Where the CIOT stands on council tax is that it is within Holyrood’s powers and therefore easier to work with. There is a proposition, and one could pick it up and work with it.

**Ross Greer:** In 2018, minor changes were made to increase council tax for band F and above. Did you take a view at that time, or have

you done so since then, on whether that was effective and whether it met reasonable objectives?

**Charlotte Barbour:** The Low Incomes Tax Reform Group had some comments on that issue, so I will pick that up and come back to you.

**Ross Greer:** Thank you. Another interesting point in the CIOT’s submission concerns the Government’s review of the additional dwelling supplement. You essentially urge that progress should be made on that. My line of questioning is similar to my previous one. Do you have a view on what would be a desirable outcome? Do you want a lower or higher rate of additional dwelling tax, or something else entirely?

**Charlotte Barbour:** I will come back to you on two points in relation to that. First, the professional bodies—the Chartered Institute of Taxation and others—do not tend to comment on rates. We can discuss rates in the sense that, if you put the rate up to 40 per cent, we would say that that was expensive and that people would take avoidance measures. Broadly speaking, however, whether the rate is 3, 4 or 5 per cent, we would not comment on it. That is a political decision about how much money you want to take out of it.

The issues with the additional dwelling supplement are much more about how the tax works; I know that your predecessor committee held a session on that. The tax does not affect a lot of people, but for those whom it does affect, its impact is strong and invasive. There are some issues around the additional dwelling supplement—they have been on the table for quite a while, and there has been a call for evidence on them. Again, what is the point of having that within your remit if you cannot pick it up and do something with it? We would like to see it being picked up and dealt with.

**Ross Greer:** Susan Murray, your submission mentions housing as a key priority, and it specifically mentions targeted action on second homes. Does the additional dwelling supplement factor into that? Does the David Hume Institute think that more can be done there?

**Susan Murray:** We did not look at that, so I have no information on that.

For a previous response that we produced on something for the Scottish Government, we looked at short-term let provision and some of the work that has been done on that, and the interplay between that and the small business bonus scheme. There is some really interesting data on that, which is worth looking at.

I am sure that the committee knows this already: 86 per cent of self-catering properties get the relief, and a number of them receive 100 per cent

relief. However, when you look at the Airbnb listings, you see that a number have more than 100 properties; it is clear that some of those are pretty big businesses. We tried to work out how the different areas of policy were playing out together and where things cross over, and how you might be encouraging something that you might not want.

Housing keeps on coming up as an issue when we speak to people across Scotland about different elements of various issues. We hear about young people who want to stay in communities and are not able to find houses, and workplaces that are trying to recruit and are not able to find employees. It comes up again and again. How that works out across Scotland is a tricky issue.

**Ross Greer:** The housing section of your paper is particularly interesting. You mention—I presume that this was written well ahead of the publication of this year's programme for government—the potential for greater use of rent pressure zones to effect positive policy change. Two weeks ago, the PFG announced a freeze on rents and evictions, and there is a long-term commitment on the introduction of rent controls.

Is that the direction of travel that you were trying to hint at in saying that more could be done with rent pressure zones? Do you think that what was announced in the PFG will achieve some of the objectives that you were looking for, or were you indicating something else?

**Susan Murray:** It is really difficult to tell without knowing the detail of exactly how those will work. There have been pros and cons of different schemes in different places around the world; the devil is in the detail.

When we were trying to recruit someone who was a kickstarter to our team, they could not find anywhere to live in Edinburgh. I have heard that story again and again. That person has now moved somewhere else and we have managed to work with them remotely, so we have kept that role, but I am not the only employer who has struggled to support a young person to stay in Edinburgh.

**Ross Greer:** I am sure that many MSPs would empathise with that, in light of their experience of trying to attract staff to work in this building.

I have a final question on which I would like to hear everyone's views. There has been a lot of discussion, which is playing out on Twitter and in newspaper columns today, about what more action the Scottish Government could take right now to help people through the cost of living crisis. There seems to be a tension, or perhaps a misunderstanding, around what can be done in future financial years, particularly around tax.

Today, another newspaper column says that the Scottish Government should immediately increase income tax on higher earners to pay for something such as free school meals.

Obviously, the Scotland Act says that we cannot do that. If that decision were to be made, it could only apply from 1 April onwards. Is the discussion that is taking place around in-year revisions to the Scottish budget sufficiently well informed? Is a substantive debate taking place in our public sphere, or are people still coming at the issue with completely different levels of understanding of what the current fiscal arrangements allow and what they do not allow?

**Charlotte Barbour:** Do you want me to go first?

**Ross Greer:** Please do.

**Charlotte Barbour:** One of our hobby-horses is that people do not understand enough about the taxes—we see that right across the UK. Deloitte did a really interesting survey back in 2019 that looked at that. It also looked at whether compliance would go up if people had a better understanding—yes, it would. As I said earlier, if you put in an extra layer of devolved taxes, that automatically adds to the complication and makes things more difficult. Issues such as whether in-year changes can be made—no, they cannot—are probably not understood. Who goes into that kind of detail?

The other aspect that is poorly understood is that tax is one part of the issue, but the fiscal framework, with the block grant adjustments, is another really significant part of it. I do not think that those moving parts are properly understood. Maybe a finance bill would help with that—or is it bad of me to say so?

**Ross Greer:** No, not at all. Stephen Boyle wants to come in.

**Stephen Boyle:** I have some brief comments to make, although I am probably at risk of repeating points that I have made to the committee before.

First, positively, we welcomed the summer budget revision arrangements, which were brought in during the earlier stages of the pandemic as an additional mechanism to support transparency. Without going into the detail of the powers in the act that allow the Scottish Parliament to implement such measures, the arrangements do not really lend themselves to addressing significant situations, whether those are crisis events or ones in which areas of public spending require cross-departmental responses. Just looking at the original budget through to in-year spending announcements and financial reporting probably comes from a much more stable era. Whether it is because of the pandemic, the cost of living crisis or climate change, it feels as though now is the

appropriate time to have a really close look at that process to support public parliamentary scrutiny and transparency.

**Ross Greer:** Thank you. Does Susan Murray have anything to add?

**Susan Murray:** No. I am sitting next to Charlotte Barbour and, although she is here with her Chartered Institute of Taxation hat on, I remember reading a paper that she wrote for the Institute of Chartered Accountants of Scotland. It was a really good paper all about tax for the common good and what would happen if more people understood it, and I think that we should probably revisit it.

**Ross Greer:** I will look that up.

**Liz Smith:** Continuing on the point that Ms Barbour made about public understanding of tax and willingness to pay, nobody likes paying tax, but I think that economists call it a “good tax” when people understand it, recognise what benefits it will produce and know how it is being spent.

That follows on from the question that the convener asked. If the devolved taxes working group was to be re-established, would you advise that we keep the remit of that group the same as it was the last time, or would you like the remit to be expanded to help with the business of understanding tax?

15:45

**Charlotte Barbour:** That is an interesting question. The remit of the devolved taxes working group should stay as it is, because it is quite tricky in relation to how you get a legislative process that fits in with the desire to sometimes perhaps make very quick changes with taxes. I say that having just said that you cannot make such changes immediately, but the committee knows what I mean. For example, if you were looking at anti-avoidance measures or something like that, or if the ADS report came through and you wanted to change the ADS quickly. There is that, but then you also want time to properly consider things through stages 1, 2 and 3 and bring them through into legislation. There are those kind of conundrums.

If you are going to have a regular process, it is also about how the legislative process fits in with the cycles for budgeting and tying the two together. The devolved taxes legislative working group did not come up with final propositions because that needs a bit of careful thought, and it should fulfil that remit. If it did that, one could always build on it by saying, “That was a great job; could you now consider this?”

**Liz Smith:** That is interesting. You mentioned in your submission that you had noted the cross-

party suggestions that we might have a finance bill. If we were to have a finance bill process, how would that articulate with the devolved taxes group? Do you see them working together or as being entirely separate?

**Charlotte Barbour:** The devolved taxes legislative group was not a one-off; it lasted for quite a while, had a great number of meetings and produced an interim report. My understanding is that the group was set up in order to put forward propositions as to how you could get a better legislative process. Part of that involves asking why you would want a better legislative process, because some people say that secondary legislation is okay. If it delivered a final report, it would then need to come to this committee and to the Government to agree on what process you did or did not want in order to take those things forward.

**Liz Smith:** Again, that is an interesting answer. Audit Scotland has quite rightly suggested that we need to improve scrutiny in this Parliament and to have greater transparency around a whole lot of things, but particularly tax and spend. If the devolved taxes group did its job properly and its report came—let us say—to this committee and then went to the Scottish Government, that would not necessarily compel it to be part of a chamber process with stages 1, 2 and 3, whereas a finance bill would compel that. I am interested to hear whether you think that we need to have both of those together or whether we could operate with them being separate.

**Charlotte Barbour:** My understanding of the devolved taxes legislative group is that a number of propositions were put forward and that part of it sits around whether you think that changing tax is about making technical changes. If we were to change the ADS, for instance, plenty of people would call that a technical change. I would not, because I think that any change to taxes has an impact on a taxpayer and is therefore a policy change about how much somebody will pay or the penalties that are levied and so on.

Therefore, I do not agree that there is such a thing as a technical change, and I think that that idea should be parked. That is why I favour a finance bill, because you could put all those changes through it. One of the reasons that I want something like a finance bill is because it needs a regular slot. One of the issues that the devolved taxes legislative working group faces, and which this committee faces, is that, at the moment, we are looking primarily at the fully devolved taxes of land and buildings transaction tax and the landfill tax—and an aggregates levy, when it gets here. Those are not the biggest money spinners—we talked about income tax being your big money spinner—but they set the tone for your taxes here.

Again, depending on what happens in the foreseeable future, now is as good a time as any to set up your processes for when you might have other taxes. That is why I think that you might introduce a finance bill now.

You might say that you have plenty on your plates and do not want a finance bill every year, because you have other things to think about, and the changes that go through will be either small or technical. “Technical” is often a euphemism for, “Oh, heck—I don’t understand it.” I am not accusing any committee member of being in that position, but I think that technical changes take a wee bit of thinking through.

Let us go back to the ADS review. Mr Greer, your questions were interesting. I do not think that the review’s recommendations would make a huge change to the second-homes market, but I think that some of them might change the perception of fairness around additional dwelling supplement. Not many people are badly affected by ADS, or rather, caught up in it in a way that we would not necessarily have expected them to be, but those people must think that it is hugely unfair. That taints a tax, rather than being really important in terms of money.

Those are the kinds of reason why you might want to bring in a finance bill and have a full discussion about it: such things are teased out during stage 1 of a bill and then—we hope—get more mileage and air coverage.

**Liz Smith:** Thank you—that was extremely helpful. I am persuaded of the need for a finance bill, which I think would enhance scrutiny and help people to understand a bit more about where their money is going to be spent, which is crucial.

Audit Scotland has said a lot about enhancing transparency and scrutiny. Auditor General, is it your opinion that we should look at introducing a finance bill?

**Stephen Boyle:** I have probably not nailed that down yet, but if a finance bill supported the overriding objective of improving transparency and supporting parliamentary scrutiny, particularly in the volatile environment that we have been in and—I anticipate—will remain in, we would be in favour, in general terms. A bill is one mechanism but might not be the only one. If it acts as an additional lever for the Parliament, we will be keen to support it and to have further conversations about how it might best work.

**Liz Smith:** Thank you.

**Douglas Lumsden (North East Scotland) (Con):** Stephen Boyle, you said in your submission:

“structural reform in the public sector can take time to achieve and generate short-term costs.”

The Government is looking at the public sector pay bill, with a desire to keep it at a constant level. Do you see any urgency on the part of the Scottish Government to bring forward proposals? The longer the Government leaves it, the more cuts it will have to make, I imagine. Have there been discussions with the Government about when proposals will come forward?

**Stephen Boyle:** We are not aware of any detail yet. Like committee members and others, we have read that it is the Government’s intention to progress with public sector reform, as set out in the resource spending review, in light of the scale of the financial challenges.

Public sector reform can be structural; it can also involve a move towards digitalisation and different ways of delivering services, as we said in our submission.

We have not been involved in conversations in that regard. Whether or not there is urgency, uncertainty has been created. As we set out in our submission, our thinking is that, regardless of the structure, which is a policy decision and is not for us to comment on, the intended outcomes and costs must be clear. What is intended to be delivered must be set out transparently.

The risk is that, given the scale of change, it becomes harder to track and monitor whether there are savings or additional costs, particularly when activity is spread over not just different Government portfolios but more widely across different parts of the public sector. It becomes harder for parliamentarians to scrutinise the process and for the public to be clear about the intended benefits. All those things need to be set out in advance.

**Douglas Lumsden:** As does the impact of change on services and people.

**Stephen Boyle:** The scale of the fiscal challenges is clear. It is inevitable that challenging decisions will have to be made across the public sector in order to deliver financial balance. Ultimately, users of public services will want to be clear about and be able to anticipate what that will mean for them. Therefore, we are not talking only about cuts, whether through restructuring or reorganisation. Both the spending to deliver the transformations and what they mean for public service users must be transparent.

**Douglas Lumsden:** On digital transformation in local government, I imagine that there must be a patchwork, in that some local authorities have transformed quite a lot already. Therefore, some of the savings that the Government thinks are there might not be. Is that right?

**Stephen Boyle:** I will be careful, because, as you know, I do not audit local government in

Scotland; my colleagues in the Accounts Commission do that. I appreciate that the committee is taking evidence from another panel of witnesses today, and I read with interest about the scale of innovation and change that has already taken place. Therefore, before making any assumptions about what digital transformation will deliver, the Government and others will want to be clear about what has already been achieved.

**Douglas Lumsden:** Maybe some of that work has not been done yet, but, as you say, it will have to be done before any programme is embarked on.

**Stephen Boyle:** Any plans for transformation—digital or otherwise—would have to be costed, and the timescales and who is responsible would have to be reported publicly.

**Douglas Lumsden:** You mentioned divergence in benefits, but we are seeing another huge divergence in growth and tax income. Do you feel that the Scottish Government is doing enough to understand the reasons for the divergence from the rest of UK, and are there plans in place that you can see to tackle it? Does anybody want to have a go at answering that?

**Stephen Boyle:** I am happy to start, but I suspect that Charlotte Barbour knows more about it than I do.

I will repeat what I said earlier: we and the National Audit Office look at Scotland's income tax arrangements to understand where there are differences and divergence, by looking at taxpayer behaviour. Work will be undertaken on behalf of the Government in Scotland by HMRC, through regular discussion and dialogue. I am more than happy to share that material with the committee, but I suspect that Charlotte is better placed to respond to your question.

**Charlotte Barbour:** I am not sure that I am. In the main, we look at the individual and the operational side of tax. That is primarily where our expertise is. In relation to what sits underneath the divergence, it is all about where the different moving parts—the fiscal framework, economic policy and taxes—sit.

**Douglas Lumsden:** When we see a reconciliation of £817 million, we would think that something is going wrong somewhere.

**Charlotte Barbour:** I would not like to comment on that. For sure, looking at it cold, it does not look sensible. However, we have different people making forecasts, which need to be married up and revisited. Predicting exactly how many taxpayers you will have is not an exact science. In recent times, things can only have been worse—in terms of people working or not working—so there are a lot of moving parts. It all comes back to why

one needs a better understanding of and more conversations about how taxes work.

**Douglas Lumsden:** Thank you.

**Michelle Thomson (Falkirk East) (SNP):** Good afternoon. Thank you for coming along today.

I will ask the Auditor General a question first. In your submission, you said that the resource spending review

“notes that there are ... 129 public bodies in Scotland”.

You quite coyly comment that

“structural reform ... can take time to achieve and generate short-term costs.”

I also note your point about service delivery and outcomes.

With regard to the typical time-cost quality of any change, you have not given any indication of the potential for cost savings. From an audit perspective, how does our having 129 public bodies compare with the situation in other countries? I realise that this is a difficult question, and I accept what you said earlier, but, by head of population or some other appropriate measure, do we have far too many public bodies, and should we have fewer?

16:00

**Stephen Boyle:** It is difficult to give a precise answer. There are jurisdictions elsewhere in the world that have far more public bodies, and there are others that have fewer.

You will know that it is not my role to comment on the merits of individual structures or policy. From our perspective, whether there are clear outcomes from what individual public bodies are asked to do matters more than the structure of the delivery of public services.

I will make a slightly related point. I note that structural changes can take time and might not deliver the intended outcomes at the pace necessary to address some of the clear challenges in the fiscal environment. If they are managed properly, there might be longer-term savings and benefits, but they might not deliver what is intended in the short term.

If the committee would find it helpful, we can examine your original question and come back to you with any information that we hold about the relative number of public bodies per head of population. I am happy to do that.

**Michelle Thomson:** That would be helpful, and I know that you will carefully qualify any data that you provide.

Are you aware of any overlap of outcomes that might lend themselves to consideration for

streamlining from an audit perspective? Perhaps I should ask when you last audited the 129 bodies' effectiveness across the board.

**Stephen Boyle:** All 129 public bodies are audited every year. They are subject to annual public reporting. All the audit judgments are available on our website through the annual audit reports. I know that the committee is familiar with this, but I am happy to state for the record that the public audit model in Scotland goes beyond a review of the financial statements. Auditors also consider the extent to which financial management is operating properly, as well as financial sustainability and the value for money that public bodies deliver. That is all clear and is available.

There is of course overlap in the delivery of public services. There is reference to that in the national performance framework and the national outcomes. It takes many public bodies to deliver individual outcomes. Some people would call it overlap and others would call it necessary partnership working to deliver effective public services. Given the overarching nature of some of the priorities—the delivery of child poverty targets being one—they cannot be the task of one individual organisation; many public bodies will have a role in their delivery.

I will step back slightly to ask whether that means that there should be structural change and that we should have one body or that we should improve how the bodies work together, along with improving the transparency of how we deliver the public services that contribute to the national outcomes. That is the question with which the Government and the Parliament will grapple.

**Michelle Thomson:** I go back to your point about the immediacy of the crises from which we are lurching. We have had several: we have had Brexit and Covid and we have a cost of living crisis. In addition, there are the up-front costs, which you clearly pointed out, before we get the benefits—if they are financial benefits. Does that work to inhibit structural change? Does short-termism always win the day, or is the possibility that it wins the day increased?

**Stephen Boyle:** It is not one or the other, to be frank. There will inevitably be challenges of the day, but they should not push out longer-term policy and financial planning. Given the experience over the pandemic and the requirement to be reactive, much of the thinking that the Government and other public bodies are doing is about not only recovery but reform, in order to move to a more sustainable model.

For many years, Audit Scotland has published reports that mention the unsustainable nature of some aspects of public services. We have said that about the national health service and we

produced a paper earlier this year about social care. There are immediate pressures that have to be addressed, but they must be managed alongside longer-term thinking and planning for the delivery of public services.

**Michelle Thomson:** I appreciate that it is difficult.

Susan Murray, you made a comment, with which I agree strongly, about there being

“greater potential for using procurement as a tool to drive change.”

You make a broad suggestion in your submission, but will you give us a wee bit more flavour of your thinking? You simply mention

“standard environmental and social policy criteria”.

Will you give us a few more examples? The suggestion interests me.

**Susan Murray:** I am just looking for my notes on the numbers. We looked at whether additional employment criteria have been put into contracts, and the number of jobs that have been created in certain categories. Hang on while I look at my notes—the numbers are in there somewhere. Ninety-two per cent of suppliers pay the living wage. My question is: why only 92 per cent? Given the total size of the budget, with the creation of 146 brand-new jobs, 27 apprenticeships and 31 work placements, with 453 qualifications, that seemed really low as a percentage of the number of procurement contracts. You would think that there would be more new jobs, but people are transferring to contracts under the Transfer of Undertakings (Protection of Employment) Regulations 2006, and they are not new jobs.

There is a lot said about community benefit clauses and additional criteria that could be put in, but, from the reports that we looked at, we were not sure whether those criteria were being used. From the numbers that we looked at, I think that there is potential to use those criteria more. We looked at the Scottish Government “Annual Procurement Report 2020-2021” for the numbers.

**Michelle Thomson:** Arguably, then, you are suggesting that there should be more transparency and that there needs to be linkage to various outcomes.

I do not know whether the Auditor General wants to come in on that point. It strikes me as an interesting area.

**Stephen Boyle:** I would just agree that there should be clearer connections between spending and outcomes.

**Michelle Thomson:** My last question is on net zero targets, which the Auditor General and Susan Murray both mentioned. We know that they are

already very difficult to achieve. We anticipate a fiscal event from the UK Government, which, if reports are correct, could roll back some of the commitments to net zero. Where is the tipping point for how that will increase the challenge for the Scottish Government, which has a clear target to achieve net zero?

Susan, in your submission you mention the Acorn carbon capture and storage project—and nearly everybody I have spoken to was utterly gobsmacked that that did not come to Scotland. I am trying to flesh out what could happen that would make you really concerned about Scotland's job becoming much harder.

**Susan Murray:** We will bow to the superior knowledge of the Climate Change Committee, because its reports are fantastic and really well researched—it just knows its stuff.

The cost of living crisis is the immediate thing on everyone's mind at the moment, but we have spoken about the long-term objectives, which we must not lose sight of. A lot has been said in the media about how the energy price cap might disincentivise energy efficiency measures, because people might think, "I do not need to do that."

If you look at what is happening in Germany compared with the UK, you see that it is stopping lighting all its public buildings and it is turning down its street lamps. It is trying to conserve energy massively. We have not really talked about that. The knock-on effect of the state doing that in Germany is that individuals are also doing more.

If we cannot get people to conserve more and use less and we do not accelerate work on warm homes, insulation and all the things that we can do to reduce energy use, we are going to have really big problems.

**Michelle Thomson:** Does either Charlotte Barbour or the Auditor General have anything to add?

**Stephen Boyle:** I will be very brief. It is clearly about prioritisation and the extent to which dealing with climate change remains a priority. As set out in the resource spending review, the issue is to be managed alongside other pressures through the available public spending resource and taxation choices. We have just finished a conversation about meeting all the short-term priorities while doing the medium-term planning at the same time. All of that is absolutely difficult, but it is very necessary that it is done.

To influence individuals' behaviour, public bodies need to be clear about their priorities and think about what the issue means for their service delivery. One issue that we have not touched on this afternoon is the public sector estate, which is

huge in Scotland. Considerable thinking and planning need to be done about what public buildings are for, whether they should be owned and used by public sector bodies or whether individual community benefit can ensue from them. Those are the choices that face Government and public bodies in the months ahead.

**Michelle Thomson:** It will be interesting.

**The Convener:** That concludes our deliberations with our first panel. I thank each of our witnesses for coming along and answering our questions. We will now have a break until 20 past 4, when we will reconvene with our second panel.

16:11

*Meeting suspended.*

16:20

*On resuming—*

**The Convener:** We will continue to take pre-budget evidence on Scotland's public finances in 2023-24. I welcome to the meeting Councillor Katie Hagmann, the resources spokesperson for the Convention of Scottish Local Authorities, Kirsty Flanagan, chair of the Chartered Institute of Public Finance and Accountancy local government directors of finance Scotland section, who is attending remotely, and Paul Manning, executive director of finance and corporate resources and depute chief executive, South Lanarkshire Council.

As we did with the previous panel, we will move straight to questions. I will ask the first few questions.

COSLA's submission is excellent and very detailed. I found the appendices particularly useful. However, the thrust appears to be that additional funding is required for local government, although all the indications are that the settlement that the Scottish Government will receive will be static in cash terms and a decrease in real terms.

In your submission, you highlight an anticipated £743 million reduction in core funding by 2026-27. If that is not to come from local government, where should it come from? Should it come from other areas of the Scottish budget—you touched on health and social care, for example—or do you envisage that additional powers over planning and building control fees and tourist tax, which you suggest could be provided to local government, could fill that gap? It is a nice easy question to start.

**Councillor Katie Hagmann (Convention of Scottish Local Authorities):** Thank you for giving me the time to speak to the committee. There are

going to be difficult decisions. We want to look at a whole-systems approach to finance. As you say, it will be challenging for everyone and difficult decisions will have to be made. The impact of the flat cash settlement for local government will be challenging for local authorities, to say the least.

I would dearly love to be able to give you a response to the question of where additional funding comes from. From the COSLA resources point of view, my role is to highlight the really challenging decisions and the many financial cuts that have already been made in local government. We would look towards taking a whole-systems approach. One aspect of that is around flexibilities and making hard choices.

We need to work in partnership with local government and the Scottish Government. Looking at the priorities that the Scottish Government is considering, it would potentially be local government that would deliver many of those. We need to have open and transparent discussions about working together in a much more collaborative way. It should almost be taken on trust that local government can deliver those priorities for the Scottish Government.

**The Convener:** Thank you for that. The issue that the Finance and Public Administration Committee faces is that everyone we take evidence from suggests that they should have more money for their particular area. We are always asking how that can be funded, because it is either through additional taxation or from other sections of the budget. It is helpful when people suggest that money spent on A is more effective for the public pound than money spent on B.

You talked about a whole-systems approach and your submission mentions

“a more collaborative approach to budget setting”.

How do you see that working in practice? Are you suggesting that the Scottish Government should work with COSLA or local government when it creates the budgets, or should that collaboration come at a later stage in the process?

**Councillor Hagmann:** It is really important that COSLA and the Scottish Government have that open dialogue. It would not be for COSLA to mandate that funding should be cut from particular places. We need open discussion.

One point that has been brought up around flexibilities is that we also need to be in the position where blame is not necessarily apportioned—perhaps to local government or to the Scottish Government—if some policies cannot be achieved because of the severe financial constraints that local government may be under in future budgets. Again, it is about collaborative talk and being able to be open and honest without

having a blame game. What we will find—this has certainly come up already—is that what works for one local authority will not necessarily work for all local authorities. That is one reason why we need flexibility, and it is why we need to trust local government’s ability to deliver.

I ask Kirsty Flanagan whether she wants to add more detail to that.

**Kirsty Flanagan (Chartered Institute of Public Finance and Accountancy):** Thank you, convener, for allowing me to join the meeting remotely—it has saved me a seven-hour bus journey.

On a collaborative approach, there are numerous examples of announcements that were made prior to any engagement with COSLA and local government, and where it then transpired that the costs were significantly more than what was originally estimated. The free school meals policy is a good example of that. That is why we would welcome early engagement with local government and COSLA when policies are being developed.

I also want to pick up on your previous question, convener. Councillor Hagmann mentioned a whole-systems approach. There is extra money in the resource spending review that is going into health and social security, but we need to recognise that local government plays a key role, particularly in prevention. By putting money downstream, you are probably not getting the saving that you could get if you invested in prevention. That is where local government could help.

I welcome the fact that there do not seem to be too many new policy commitments in the most recent programme for government, but, of late, there have been quite a lot of new policy commitments. We need to focus on the priorities and on the core budget rather than continually bringing in new policy commitments.

**The Convener:** I want to follow up something that you said a moment ago. In your written submission, you said that the Scottish Government is

“continuing to focus funding in areas where things have already gone wrong in people’s lives, rather than providing funding to stop them going wrong in the first place”,

without evaluating the impact on other areas.

Are you suggesting that there should be an evaluation before the Scottish Government increases its expenditure in those areas? What do you say to people who say that folk are struggling and need the money now? Some of the solutions that are suggested through local government are perhaps a bit longer term than the folk who would otherwise receive the benefits would wish for.



**Kirsty Flanagan:** It is a difficult balance, because people need help now, but if we do not try to move away from tackling the urgent issue and move to prevention—[*Inaudible.*] So, it is a difficult issue.

**The Convener:** In your written submission, you said that we need “frank discussions” about what needs to be “deprioritised” in the public sector. What needs to be deprioritised?

**Kirsty Flanagan:** I do not think that I can answer that one fully, because obviously it will depend on what local authorities might want to deliver locally. However, a lot of funding is directed, and local authorities do not have autonomy to make our own decisions. It is difficult for me to comment on what needs to be deprioritised in 32 authorities.

**The Convener:** Give us one example, then. Give us one thing that should be deprioritised across the vast area of local government expenditure in 32 local authorities. If the issue is of fundamental importance, there should be examples. If we are to produce a report making recommendations to the Scottish Government on deprioritisation, it would really help if we had at least one example of where deprioritisation should take place.

16:30

**Kirsty Flanagan:** We have seen a significant increase in early learning and childcare funding, so a significant amount of funding goes towards that. As costs escalate, the core budget is being eroded because of that policy decision. Although having the 1,140 hours is commendable, perhaps consideration is needed of whether the scale is right.

I hate to mention the national care service, although you probably knew that that would come up in discussion. That is a huge area of reform that is going to cost a significant amount of money in set-up costs, as well as running costs. That area could also be looked at.

**The Convener:** Thanks—that is very helpful.

Mr Manning, in case you feel neglected, I am going to ask you about a number of things. One is that COSLA’s submission says that the national care service

“poses a risk to councils’ ability to deliver a wide range of services for communities”.

Does South Lanarkshire Council agree with that? If so, which services and in what way?

**Paul Manning (South Lanarkshire Council):** That was also picked up in our submission. Part of what informed that is the backdrop of the current level of underfunding of service provision. There is

not enough money in the system for care, which is, I think, acknowledged. The risk that we face is that we are embarking on a major structural change, and I am not convinced that we fully understand how much it will cost. Figures of around two thirds of a billion pounds have been quoted, and COSLA has suggested a figure that is nigh-on double that, of £1.2 billion. There is a significant amount of risk in this.

COSLA’s and South Lanarkshire Council’s submissions question whether, if additional funding is to be directed towards social care—and I think that there is a consensus that it should be—there is merit in doing that within the context of the existing structure. Could a better outcome be achieved more quickly by doing that within the existing structure, as opposed to creating the entirely new structure of a national care service and everything that is required to service it?

**The Convener:** You are asking the question. Can you give us the answer? You are giving us an almost rhetorical question, but I am keen for you to say how retaining the current structure would be beneficial.

**Paul Manning:** A properly funded system could deliver a better outcome. That statement works on the premise that part of the reason why the care system is failing is underfunding. An appropriate amount of money could be directed towards care services through the current structure. That is not to say that having no reform of the current structure is appropriate. I am sure that a degree of reform is appropriate, but is it really necessary to create a completely new national structure to deliver that reform?

In addition to the costs not being fully understood, another concern about the residual impact on councils, which is picked up in COSLA’s response as well as our own, is about what is left, particularly for smaller councils, if we take what probably amounts to a third of the average council’s expenditure and remove it from the remit of local authorities. When it comes to things such as the support services that are left to councils, would we still have the critical mass to support those councils through what would be an absolutely fundamental change?

There are also things that have not been dealt with around the national care service, particularly from a finance point of view. For example, how is VAT going to work? In the past, there have been problems around VAT when there is major structural change in the local government family. How will VAT change with regard to assets that are now the property of councils, including in the intervening period? There are also things such as pensions, which are acknowledged in the consultation papers that have been put out thus far. We are talking about a workforce of 75,000

people, and there is a real vagueness about how the pension arrangements will be dealt with. There are a whole number of things that could undermine local government's ability to deliver services.

**The Convener:** You talk about the critical mass being reduced significantly in some smaller councils. I, for example, am an MSP for North Ayrshire and there are three Ayrshire councils, which were created for political purposes rather than for any other reason. Does that mean that those three councils would be in a better position if they merged into one local authority, because they would not be viable any longer? Would the situation in Forth Valley with Falkirk, Stirling and Clackmannanshire councils be the same? If the situation progresses as you suggest, where would we be in relation to delivering support services?

**Paul Manning:** That is a really good point; where would we be? Part of the apprehension around the situation is that taking the step towards the change to a national care service starts to trigger further reforms; it will necessitate further reforms. Taking away a third of what smaller councils do from areas such as finance, payroll, legal services, human resources and internal audit may mean that the critical mass in those functions would not exist any longer.

That domino effect probably takes you next to a discussion about wider reform. You could be looking at a period of five or six years of significant public sector reform that is necessitated by that change. Across that period of time, you run the risk of people concentrating on reforming their bodies and how services are provided at the expense of delivering for communities.

**The Convener:** That is very helpful. I turn back to Katie Hagmann. In your submission, you state:

"From a human rights budgeting perspective, there is a duty to increase resources to achieve the further realisation of rights."

What are those specific rights and how much resource would be required to realise them?

**Councillor Hagmann:** Where in the submission is that quoted from?

**The Convener:** I would have to look through it all to find it. I read the whole tome and took out the questions that I was going to ask so that I did not have to wrestle with a 50 or 60-page document.

**Ross Greer:** It is from paragraph 40, convener.

**The Convener:** Yes—it is from the third line down in paragraph 40.

**Councillor Hagmann:** In relation to having that local mandate—as local authorities, we are the closest to communities in terms of having a democratic mandate—it is important that

authorities can fulfil those rights. I consider the issue in relation to the human rights budgeting perspective.

Across local authorities, there have been discussions with communities. I can certainly speak on behalf of my authority in Dumfries and Galloway, where we went out to consult the community because difficult decisions have to be made. Where there are specific policies that local government is responsible for delivering, we need to make sure that they are properly funded, which means that there will be occasions when we are not able to deliver policies because of difficult budget decisions that are made.

**The Convener:** From what we see in the resource spending review, you will face only difficult decisions; I am not aware of any easy decisions. It is difficult and frustrating. Your submission would be excellent if you had a growing budgetary resource, but it is not really a great submission when you have a shrinking resource. We asked what specific efficiencies can be made, and you say in your submission, "If you give us additional resources, we can make longer-term efficiencies." That is the bit that I talked about earlier in relation to deprioritisation. However, that is not where the finances are, because of inflation.

Mr Manning, you say in your submission that the impact of the

"extraordinary effect of inflation should be recognised in funding settlements for local government."

How can that be done if the Scottish Government's budget is reducing in real terms?

**Paul Manning:** The point is well made. You will understand that our submission is from a local authority point of view and we are in a position where inflation will make things absolutely critical over the next couple of years. Elsewhere in the submission, I refer to a budget gap.

**The Convener:** Is it £37-odd million?

**Paul Manning:** Yes—£37 million. That figure has probably doubled. Sorry; in getting to the £37 million, the figure has probably doubled by—

**The Convener:** I am sorry to interrupt you, but will you put that into perspective in terms of the overall budget of South Lanarkshire Council?

**Paul Manning:** We are talking about a budget of £700 million-plus.

**The Convener:** So it could be as much as 10 per cent of the budget.

**Paul Manning:** It is not quite getting to 10 per cent; it is probably closer to around 5 per cent of the budget.

**The Convener:** You said that it could be £70-odd million, as it could be doubled.

**Paul Manning:** I am sorry. I was not clear. In getting to the £37 million, I would normally have been looking at a budget gap of around half of that.

**The Convener:** Right, so you are talking about a 5 per cent gap.

**Paul Manning:** In a percentage, yes. I am sorry that I was not clear; that is my fault.

Every year, when we put the budget together, we are faced with items such as providing for pay awards. We had assumed a modest decrease in our grant. In putting our budget together, we would look to provide for factors such as contract inflation, and I would normally have been looking at such items adding £20 million to our bill. However, as we go into 2023-24, there will be exceptional pressures. For example, I believe that we will need to put an extra £8 million for utilities into next year's budget. On fuel, there will easily be another £2 million, and I could add another million to that for pupil transport.

A real concern is public-private partnership payments. As most other councils do, we have schools being built through PPP arrangements, the contracts for which contain an inflationary uplift that will crystallise at the beginning of next year. When I wrote our submission, inflation was estimated to be around 10 or 11 per cent in February next year, when those contract payments crystallise. That would add another £4 million to the budget gap.

My point is that the inflationary climate makes the budget extra strained in comparison with those for other years. Normally, I might have been looking at a budget gap of just under £20 million, but the figure will be into the mid-30s because of the inflationary pressures. There is no way round them. Believe me—I have tried to achieve that on elements such as PPP, but I cannot see a way out of the situation. That is what makes it particularly acute.

**The Convener:** One of your suggestions—indeed, it is also in the main COSLA submission—is about multiyear settlements. I think that committee members round the table are really sympathetic to and supportive of such an approach for local government. Of course, the issue is that the Scottish Parliament does not have such settlements, which makes it difficult for us, especially given the proportion of resource that goes to local government.

Two weeks ago, I had a private meeting with representatives of the Accounts Commission. When it gives evidence, it always talks about long-term planning. Most local authorities, although not all, are involved in medium to long-term planning. What work is COSLA doing on long-term financial planning?

**Councillor Hagmann:** You are absolutely correct: we all very much want to work in multiyear settlements. That is COSLA's ambition and the position that it wants to get to.

Touching on a point that was raised earlier, as COSLA's new spokesperson on resources, I welcome the deliberative form of engagement that has emerged once again. I know that it was touched on with my predecessor in the role. We need to have engagement and discussions on the areas in which the Scottish Government has priorities that local government is looking to implement. We also need to be part of the conversation so that we can then pursue our aspiration such that, even if we do not have multiyear settlements, we can achieve our ambition and get there together.

That is our aspiration, but I absolutely accept that the Scottish Government works within the confines and constraints of the budgets that it is given. The question is how we can plan by doing that. The answer is about being round the table and being part of the discussions so that we can find a way forward in a positive direction.

16:45

**The Convener:** Okay. Before I let colleagues in, I will ask two more questions. The first is for Kirsty Flanagan. Your joint submission says:

“greater emphasis should be placed on tracking outcomes rather than ... spend.”

Should not both things be done?

**Kirsty Flanagan:** Alongside a number of new policy commitments, there is an increased requirement to report on how much has been spent. I think that the focus should be on delivering outcomes. Rather than focusing purely on inputs and outputs, we should be focusing more on outcomes.

**The Convener:** Okay—thanks.

Paul, in talking about digitalisation and the potential savings to South Lanarkshire Council from doing that, you say in your submission that the Scottish Government might need to help with the implementation costs. That would be another initial cost for the Scottish Government. What additional assistance would the council need? What savings would be made through digitalisation over one year, five years or whatever the time period for which you would make an assessment?

**Paul Manning:** The point that is made in the submission is partly about common platforms. Rather than our replicating the same system multiple times in different councils, having one system—or at least rationalising how we come up

with digital solutions—would help us greatly from a procurement and service delivery point of view.

Having been through such changes on a number of occasions, I know that it is sometimes difficult to synchronise them. One local authority might be ready to implement a new system, but another local authority might have put in a system two years previously and it may not have the appetite to make a further change. How can I put this? Investment to create common platforms and common solutions might be a way to break the cycle of limping along and never really biting the bullet to move to common digital platforms.

I have not quantified, and I cannot quantify here, how much that would cost across Scotland. However, our submission acknowledges—and there is acknowledgement across local government—that there are real gains to be made by digitalising what we do. There will always be people who do not want to or cannot engage digitally because they are unable to get a service or access information in that way. However, a growing percentage of people—the percentage has grown greatly over the past 10 years—are prepared to do that.

Our submission is meant to be positive. If making changes is a theme, digitalisation would be a good one to start with.

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

**Ross Greer:** If we look back a couple of weeks, COSLA's position in the recent local government pay dispute was that the Scottish Government needed to contribute more money to resolve the matter. Eventually, that happened. Two weeks ago, the Deputy First Minister published the budget revision explaining where that money had come from. Was money taken from the right places to settle the pay dispute?

**Councillor Hagmann:** On local government and the pay dispute, local authorities and leaders mandated that a 2 per cent increase was the maximum that local authorities could provide. We have now received recurring funding of £140 million, which is absolutely welcome. The fact that it is recurring has enabled us to increase the offer. The First Minister intervened, the strike action has been put on hold, the offer has gone out to unions, and we await the outcome. There will be further discussion on teachers' pay, which will be on-going.

The situation has been really challenging. Ultimately, there is not an infinite amount of money. However, with all due respect, local government is not there to determine what the Scottish Government should put its money into.

No one wants to be in a position where they are not paying their employees a fair and reasonable

wage. Local government is one of Scotland's biggest employers, if not the biggest. We value our staff and the input from unions and we wanted to get to a position. There was no easy solution. Unfortunately, we are not quite out of the woods yet: we must ensure that the pay settlement is fully resolved. That is an on-going process.

My long answer to a short question is that I do not know at this point. It is up to the Scottish Government to determine the priorities. Some of those decisions are political; that is the very nature of where we are. With limited budgets, those situations and conversations will probably keep recurring.

**Ross Greer:** I agree absolutely. Given the context, it was a case of picking the least worst option.

I want to check something. The Deputy First Minister published a list a fortnight ago. Was there anything on that list that created a concern for COSLA about knock-on effects on the services that you deliver?

**Councillor Hagmann:** There were a range of options. I understand that COSLA officials are still working with Government officials on flexibilities, in order for us to be able to deliver that. That is for this year alone. Difficult decisions will ultimately have to be made.

**Ross Greer:** I agree with the convener about the quality of your written submission. It mentions increased revenue-raising powers for local government, which have been a long-running and obvious point of concern for COSLA. The workplace parking levy was introduced through legislation a few years ago. A fortnight ago, the programme for government confirmed that the transient visitor levy will be introduced during the current parliamentary year. The visitor levy has been a particular priority for COSLA.

What comes next? Now that you have succeeded on the visitor levy, which will be passed into law with the power going to local government, what is the next revenue-raising lever that COSLA would like to see being given to local government?

**Councillor Hagmann:** I will hand over to Kirsty Flanagan to answer that. We will have to have discussions throughout COSLA's thematic boards and will then go to leaders so that a direction is put in place. However, I will hand over to Kirsty, in her role as chair of CIPFA, to talk about the specifics.

**Kirsty Flanagan:** I am not sure that I have all the answers about what the next revenue-raising options are. I have not been involved in the discussions, but I know that there have been discussions about the council tax.

I very much welcome the transient visitor levy, which might bring in significant amounts of money for some councils. As Paul Manning said earlier, they will probably be wiped out by inflation, but the levy is something that we welcome.

We will have to consult our communities about that. We have mentioned planning fees and building control. If local government could have control of that and obtain full cost recovery, that would also be welcome.

**Ross Greer:** I will move on to a different area, on which I may sound more confrontational than I mean to. I accept that the position varies significantly from authority to authority, but the 32 councils across Scotland collectively have far more money in their reserves than the Scottish Government is legally allowed to keep in reserve at any time, never mind what it has at the moment.

Councils are facing acute costs at the moment. Paul Manning mentioned the energy costs for council facilities in the coming months. If a council has reserves, can it use them to meet its increased energy costs? I accept that that is a short-term solution and not a long-term one, but I am interested to know how councils are planning to use their reserves, where they have them.

**Paul Manning:** I cannot speak for all councils, but I can give you an answer about mine. Some of the money that we have in reserve will pay for increased energy costs in the current year. The vast majority of councils, if not all of them, will be in that position. Their reserves will be earmarked for specific things. More often than not, those reserves will be earmarked to make the budget position deliverable in the short to medium term.

There is not money salted away in councils to see us even into the five-year term with a balanced budget position. My authority's reserves are supporting our revenue budget in the short to medium term. They can do that for maybe two years; in the third year, we will face a much higher savings target than that for the next two years. We can keep things moderate and deliverable for two years but, in the third year, we will start to look at a cliff-face from the efficiency savings target. Most authorities will be in the same position.

A picture is painted of local authority reserves, but most of them are bolstering the financial position in the short to medium term. Other things in local authority reserves are for specific purposes such as housing revenue accounts and insurance funds.

Most councils—including mine—have a small amount of money in reserves, in comparison with their budgets. Our uncommitted reserve is 1.5 per cent of our total, and that is our “In case of emergency, smash glass” money. That amount is small; if I used it to deal with immediate budget

pressures, I would be having a conversation with the Auditor General pretty quickly after that about my approach to replenishing the reserves. Looking to reserves is really short term, and councils are not in a position to do that.

**Kirsty Flanagan:** I had asked to speak when Paul Manning started speaking, so I will probably reiterate some of his points. Quite a lot of authorities will have to use reserves in the current financial year—2022-23—to address inflation rises, and some of those reserves are probably left over from Covid. A lot of councils' reserves are being depleted for next year, so the cost of inflation will be very much an additional cost next year.

Quite a lot of councils' reserves have been set aside to support capital investment, which will be crucial to support economic regeneration and recovery from Covid. Our capital grant has remained static for a number of years—actually, it has reduced—and it will remain static over the next few years. Reserves that have been set aside are therefore crucial to support capital investment in council areas.

**The Convener:** I should point out that the Scottish Government's capital allocation was cut by 9.8 per cent in the current financial year. I understand the position that councils are in; the whole budget is in that position.

**John Mason:** You raise the issue of preventative spend, which the committee has done quite a lot of work on. We are all sympathetic to it but struggle with how to put it into practice, if we have no extra money at the moment. I take the point in paragraph 7 of your submission that education, housing and employment are key things that can prevent problems and reduce demand on, say, the NHS or other more reactive services.

Do you have suggestions as to how we balance that? We are continually shown the waiting time for accident and emergency at hospitals, which is a big figure that we all get excited about. If we put more money into that, there is less money for housing or whatever. Do you have suggestions on how to get the balance right?

**Councillor Hagmann:** It is maybe not for COSLA to say what the Government should do or how it should put in funding. However, I will raise a point that was made in Public Health Scotland's submission, which says:

“The NHS was never designed to work alone in protecting our health and wellbeing. All public services have a role to play in creating the building blocks of health.”

The fact that that comment comes from Public Health Scotland and not from COSLA reinforces the importance of taking a holistic, whole-system approach. Of course we want to increase the

positive outcomes of health, but it is not as simple as just looking at that end point; we need to look at the whole system. I feel that I have been repeating this, but I note again that it is challenging and it is going to be difficult. That is why we need to have open discussions about how we work together in partnership in order to get to the good point where we can deliver and increase those health outcomes for everybody—for all our communities.

17:00

**John Mason:** I do not think that you will find anybody here who is going to argue with that—I am certainly not. The point has been made, and I think that it is made in your submission, that we have tended to give the NHS increases that are higher than inflation, or at least bigger increases than we have given to local government. Those two areas are the two main parts of our budget. I asked the previous panel this question, so I might as well put it to you as well. Have we been too generous to the NHS? Should we try to give the same increases to the NHS and local government?

**Councillor Hagmann:** I think that the standard answer to that is that we would never look to take away from the NHS or say that it should not have funding—absolutely not. We want to have those outcomes. We need to invest across both areas, but we need to ensure that local government, which is delivering on some of the key priorities and will perhaps, in effect, mop up some of the unseen consequences, is financially resourced properly so that we can actually do that job. That is not to say that local government should get more money over the NHS. Again, there are difficult choices for Government to make.

**John Mason:** Another choice that we have to make concerns the question of ring fencing and whether we should give more money to local government—or any other sector, for that matter. We immediately get accused of creating a postcode lottery if Aberdeen City Council is spending more on education, whereas South Lanarkshire Council is spending more on social care, refuse or something else. Do you have any suggestions about how we can get round that and strike the right balance?

**Councillor Hagmann:** It is about—I go back to the term that I used previously—deliberative engagement. Let us have that discussion and work together in partnership. I appreciate that there is a level of directed spend and that it has increased significantly. It is sitting at approximately 65 per cent of council budgets at present, which is a huge portion, and that leaves less money for us to deliver the other core aspects that we deliver as local authorities. Kirsty Flanagan, as chair of

CIPFA, may have more technical detail on that, but 65 per cent is a large proportion.

In my local authority, where we work in a very collaborative way, we all agree on 95 per cent of the priorities. Nobody is saying that we should not be delivering for the very best outcomes. It comes down to having that level of trust, giving that power back to local communities and delivering through local government.

**John Mason:** I will come to Ms Flanagan in a moment, but can I press you on that? There is a political angle as well as the technical angle, is there not? If you are in South Lanarkshire Council and, across the road, North Lanarkshire Council is doing something differently, you and your colleagues come under pressure. I am sorry—you are from Dumfries and Galloway Council; that was just an example. A council will come under pressure when people say that the neighbouring council is doing so much more—it is collecting the bins more often and all that kind of thing. Do you feel under pressure to be consistent with other councils?

**Councillor Hagmann:** Each local authority is unique and different, and each is delivering in the best way for its communities. You mentioned the political point of view. If communities see that their local authority is not delivering for them, a new council will be elected at the next election. We have a democratic mandate and it is up to individual councillors to take that forward. Ultimately, the power lies with our communities and the people who elect the councils.

As I said, however, it is very challenging. As you pointed out and as I have said, Dumfries and Galloway Council is very different from, let us say, Stirling Council or the City of Edinburgh Council, and what works for one local authority will not necessarily work for another. Things have to be done almost on an individual basis, with the knowledge and expertise that local authorities have. It comes down to trusting that local government is best placed to deliver for the local priorities.

**John Mason:** Thank you. Do you want to comment, Ms Flanagan?

**Kirsty Flanagan:** I want to add that some local authorities are already delivering different services. Some authorities might already be delivering on an outcome for which ring-fenced moneys are intended. We are all at different stages of what we deliver, depending on the needs of our communities. There has to be an element of trust that the money that is passed over to local authorities will be used to deliver the key outcomes, with ring fencing removed.

Communities have very different needs. You gave the example of South Lanarkshire Council

and North Lanarkshire Council delivering differently. Those two authorities probably deliver some services differently, but they are probably delivering the same outcomes for their communities.

**John Mason:** You mentioned full cost recovery for planning and building control. Are some councils not recovering their full costs? Will you give a bit more detail about how the system works?

**Kirsty Flanagan:** I am not sure about the position throughout Scotland. The fees are set nationally, and if we had the power to set them locally, we could structure them to ensure that there was full cost recovery.

**John Mason:** I do not know whether it is possible to get that information. I would be concerned if no council was recovering its costs. I have met developers who say that they would be happy to pay more if that led to speedier planning decisions.

**Kirsty Flanagan:** I think that we could get that information for the committee, if it would be helpful.

**John Mason:** It would be helpful to me. Thank you.

We have discussed balance a lot. Towards the end of the COSLA submission, you mention transparency. How do we strike the right balance between transparency and flexibility, which COSLA also mentions?

Sorry, Mr Manning, I have not asked you a question, so maybe I should put this one to you. Ring fencing makes things easy, in a sense—I am not saying that I agree with ring fencing—in that it enables us to follow the money and see where it has gone. People ask MSPs how much is spent on education and so on. If we give South Lanarkshire Council extra money, which it splits in different ways, there is flexibility, but is transparency reduced?

**Paul Manning:** We are referring to COSLA's submission, but we picked up certain aspects in our submission, too.

This takes me back to the point that Councillor Haggmann and Kirsty Flanagan made. To a degree, it is about respecting local government's position in the democratic process and trusting the decisions that are made locally. That is important.

Flexibility in how local government uses the money that is given to it would help, particularly in dealing with the types of problem that we have discussed this afternoon. An approach whereby local authorities were trusted to come up with solutions that suited local needs, in a way that was democratically approved by their local members,

might lead to different spend in different areas. It is a question of loosening the bonds at local level and trusting an authority to take the right decision for a particular area, which we hope will lead to positive outcomes in that area.

We have talked at length about the proportion of spend that is directed or not directed. Councillor Haggmann made the point that maybe close to two thirds is directed. That shows the extent of the change that could be made.

The point around transparency is about local government as a whole, and even the Scottish Parliament, looking at what the local government spend actually is. It comes from different departmental budgets within the overall Scottish budget, so it is not necessarily easy to follow what flows through to local government. That impedes transparency. In particular, it makes it difficult to see what our core funding is. Local government makes that point every year, because it goes to the core of what we do. Putting aside the specific Government initiatives for which we are funded, and the money that comes in from other departmental budgets, to what extent is our core funding suffering?

That lack of transparency does not guide us towards taking a strategic approach to looking at the local government budget. We need a clear picture of what the budget is and how we see it moving across the short to medium term. That is the issue that we were picking out in making the point about transparency.

**John Mason:** We could probably spend longer on that, but I will run out of time soon. I will ask one more question, which, again, is for Mr Manning. The COSLA submission, looking at capital projects and expenditure, talks about a 30 per cent increase on anticipated costs, which—I have to say—jumped out at me. Is that the kind of inflation that we are talking about for capital projects and so on?

**Paul Manning:** It would not surprise me. One example is a bridge that we have been trying to construct in our local authority area. The purpose of the bridge is to connect a community of people who currently have to go on a terrible dog-leg journey because the existing bridge is no longer safe. A couple of years ago, the project was costed, properly and thoroughly, at around £4 million. Now, we could be looking at a percentage cost increase that is not too different from the one that you mentioned.

There are a number of reasons for that. There is the inflation that we have talked about, in particular for capital projects. I am stating the obvious here. Construction industry inflation is running at a higher level, and there is inflation in commodities such as steel that are commonly

used in capital projects. That issue has not been helped by the war in Ukraine, which was a steel supplier to the UK. That has forced the cost of these things up, and we are seeing longer lead-in times for capital projects that make them harder to deliver. In addition, fewer companies are currently prepared to bid for public sector contracts, because they know that, given the nature of what we do, we are going to try and price those contracts keenly, so they are not as attractive a proposition to the market as they might once have been. That is not fantasy—it is the reality that councils currently have to live with.

**Douglas Lumsden:** When I was a councillor, I went along to the COSLA leaders' meetings. When the tourist tax was discussed, it was always spoken about as something that would be optional for each local authority. Additionality was another key issue. Have we now moved to a place where councils are looking at things such as the tourist tax and the parking tax not as additional sources of income, but to plug the gaps that they have?

**Councillor Haggmann:** I can come in on that one. As I said previously, each local authority is different, and local authorities are in a position in which they have to look at and make those hard decisions. While local authorities may not wish to put those taxes in place, the option is available to them. It comes back to the point about choice and flexibility; what works for one authority might not work for another.

There should never be an apportioning of blame. We should not say, "Look, this local authority is putting in place this tax, and it's not as good as that authority." We need to get to a place where there is an understanding that each authority has its own individual level.

**Douglas Lumsden:** Are COSLA members looking at the tourist tax as a way to increase spend on tourism or marketing, for example, or are they now looking at it to plug the gaps that they have?

**Councillor Haggmann:** When it comes to local government finance, I would say that all local authorities are looking at ways of increasing revenue in order to provide some of their core provisions.

**Douglas Lumsden:** Are they doing that to provide additionality or to keep the lights on and provide the statutory services that councils have to provide?

17:15

**Councillor Haggmann:** We are looking at a 7 per cent real-terms cut to local authority budgets, so local authorities are having to find ways to fill that gap.

**Douglas Lumsden:** Kirsty Flanagan, do you have anything to add?

**Kirsty Flanagan:** Local authorities will have to make some difficult decisions on services that are important to tourism, such as waste services, roads and infrastructure, because of the cuts that they face. The tourism tax will probably help to plug a gap for services that authorities would no longer be able to afford in the way that they have been able to in the past.

**Douglas Lumsden:** I will move on, because I know that we are short of time. The COSLA submission talks about the gap in funding that there will be in the next five years and about it being equivalent to having 20,000 fewer local government jobs. Do you think that that is the reality that we will face in five years' time? Will there be 20,000 fewer local government jobs?

**Councillor Haggmann:** Ultimately, local government will probably have to adapt and evolve. One of the discussions that we had when we considered the pay increase is that if we had not had recurring funding from the Scottish Government in order to offer a larger pay settlement, we faced the reality that local government would have been looking at cuts to jobs. That is the reality that local government faces right now.

**Douglas Lumsden:** Is local government still looking at having 20,000 fewer jobs in the next five years?

**Councillor Haggmann:** That will depend on future budgets but, yes, with the predicted decrease in budget allocation, local government will have to make difficult decisions.

**Paul Manning:** It is fair to say that in COSLA's submission there is a picture of budget gaps. I quoted a gap of £37 million for South Lanarkshire Council. We need to remember that the majority of what councils spend is on employee costs, so if budget gaps have to be closed councils will have to consider their levels of staffing.

In our submission, we quoted the capacity within digital transformation. That will take cost out of processes, which will sometimes mean taking jobs out of processes. That section of our response was meant to be constructive, asking what areas we will look to to bridge the budget gap.

I do not think that we should be under any illusion; these are real gaps that local authorities face. Unless solutions are put in place—we have talked about the ideal solution, which is more funding or funding that addresses the inflationary pressures that we face—there will be job losses in local government.

**Douglas Lumsden:** Based on that, I assume that, unless there is quick digitalisation to replace



people, there will be an impact on the services that local government provides.

**Paul Manning:** I was in the room earlier when the auditor general was here, and the point was made a number of times that change takes time. The time needed to innovate and digitalise processes and to change structures means that those changes will not be made for the financial year 2023-24. Councils will take that into account in their approach, but in order to make change we need two things: time and investment. Some money needs to be put in to facilitate change; I gave the example of digitalisation of processes.

**Douglas Lumsden:** The examples that the Government gave about how you could reform were: digitalisation, maximisation of revenue through public sector innovation, reform of the public sector estate, reform of the public body landscape and improving public procurement. Have you not already been doing those things for the past five years?

**Paul Manning:** Councils have been doing that. If councils had not spent the past decade making efficiencies, and we were looking at a clean slate and thinking about what they do and what could be done to make the position better, I would feel better, but that is not the case. The funding settlement for councils is one of flat cash. In the current inflationary climate, becoming more efficient is going to be that bit more difficult because the low-hanging fruit was taken long ago.

The ideas that have been referenced are absolutely worth looking at. You mentioned the public sector estate, which is a prime example of the need for investment to meet net zero commitments. That will involve a massive cost. Those areas have been looked at and there is merit in looking at them further. South Lanarkshire Council reflected that in its response. However, somewhere along the line, as well as looking at structural change and becoming more efficient, councils will have to look at the services that are provided, with a view to cutting back on those in order to bridge budgetary gaps.

**Douglas Lumsden:** Kirsty Flanagan, you spoke about early intervention and prevention. I completely agree that more money being spent at a local level probably means less money being spent, eventually, on health and justice, for example. How can you better make the case to the Scottish Government? How do you quantify what you can save later for the health or the justice budget?

**Kirsty Flanagan:** That is a really difficult question and I am not sure that I can quantify that. However, we are not delivering just now on all the outcomes that the Scottish Government wants to

deliver on, so there needs to be a change in what we are doing.

Earlier, I asked to speak because I wanted to pick up on your question about jobs cuts. That scenario is very likely, because 60 to 70 per cent of our budget goes on the workforce.

Councillor Hagmann noted the additional money that we got for the pay settlement. That is very much welcomed, but I have to point out that councils are short for the pay settlement. Most councils would have budgeted for a 2 per cent rise in pay. The additional money that the Deputy First Minister has awarded us takes that up to 3.5 per cent. The pay offer is currently 5 per cent, so councils have a 1.5 per cent gap to bridge. To do that will probably involve significant job losses.

**Douglas Lumsden:** Are you saying that, even just to meet the pay settlement that was agreed this year, savings have to be made elsewhere?

**Kirsty Flanagan:** Yes. Most councils have budgeted for a 2 per cent pay award in the current year. The 5 per cent offer that is on the table leaves councils with a budget gap this year that they are going to have to look at. The Deputy First Minister has confirmed that he is willing to look at some flexibilities on the ring-fenced funding, but we are just in the early stages of discussion on that.

Next year, there will be significant budget gaps, but most councils will have a budget gap in the current year because of the pay offer.

**Douglas Lumsden:** That is because it was not fully funded by the Scottish Government, I guess.

**Kirsty Flanagan:** That is correct. Most councils have 2 per cent in their budgets for it, and the Deputy First Minister's funding equates to around 1.5 per cent, so there is a 1.5 per cent gap.

**Douglas Lumsden:** To go back to the point about early intervention, how do we better get the message across to the Government that more money being spent on local government will give savings later? Is there any way at all of quantifying that?

**Kirsty Flanagan:** I am not sure how to get that message across better. We have been reiterating it for years. I would need to think about that further.

**The Convener:** The transient visitor levy—the tourist tax, as it is called—might be good news for Argyll and Bute, but I cannae see North Lanarkshire making much out of it. There is a real issue in the fact that it will be very uneven when it comes to which local authorities benefit from that and which do not. That will also have to be taken into consideration in deliberations on funding.

**Daniel Johnson:** I will keep to one question, but it will have two strands. COSLA's submission states that, in real terms, local government budgets have been cut by 7 per cent since 2013. Mr Manning pointed out that, within that, two thirds has gone to ring-fenced areas. Further on, the submission states that those ring-fenced areas have to be cross-subsidised from local government discretionary budgets. Does that imply that a sum comes out in addition to the 15 per cent real-terms cut, in that you have ring-fenced funding that impacts on core and then you have to cross-subsidise? If so, can you attach a quantum to that cross-subsidisation?

**Paul Manning:** I will start off on that. The point that COSLA is making in the submission is that there are areas of directed spend; additional moneys are coming in for specific purposes. The submission goes into a fair amount of detail in relation to moneys that have come in for health and social care and children and young people. Another example is around the £10.50 per hour minimum wage. Those are all quoted in COSLA's submission as moneys for specific uplift.

Another point that is made in the submission is that, although those initial amounts go in, in an inflationary climate councils will face pressure on that spend. What you had to spend on a unit of those services last year—*[Interruption.]*

**Daniel Johnson:** I understand the point; I am wondering whether you have quantified that. I understand that your budgets are under pressure because of ring fencing. That is where you go from a cut of 7 per cent to one of 15 per cent. In the submission, you imply that, on top of that, you are having to subsidise those ring-fenced areas from your discretionary budget. I am asking whether you have a quantification of what proportion of your budget that is. What is the addition to the 15 per cent effective reduction?

**Paul Manning:** Individual councils could do that for individual priorities and initiatives that have been put in place. Councillor Hagmann and I are happy to have a conversation with the COSLA team to see whether that figure is within the background papers of the COSLA submission.

**Daniel Johnson:** That would be helpful. You specifically quoted the early years funding. How much of the funding for that specific policy is having to be subsidised from core discretionary funding?

**Councillor Hagmann:** In order to get clarity around that, I can get my local government finance team to submit some further written evidence to the committee on that specific issue.

Local governments are key partners in the delivery of key areas of policy such as in relation to child poverty, climate change and a fairer,

greener economy. On the question of whether those are properly funded and how we can ensure that we are not having to take money from our budgets, COSLA has been making the point that we need to have early intervention and discussion during the creation of those policies. We need to be around the table and having those early discussions so that the funding that is given to local authorities is a true reflection of the cost that it will take to deliver a policy.

**Daniel Johnson:** I understand that. However, my question is about a slightly different point. You are saying that the ring-fenced areas for policy delivery are not being sufficiently funded, and I was asking you to clarify by how much. If you can provide that in writing, that would be really helpful.

**Councillor Hagmann:** We will get that to you.

**Michelle Thomson:** I will try to be brief. I have a couple of questions. In your submission, you mention wider adoption of shared services and correctly note that that will need increased resources and time to take effect. It also needs appetite. Can you help me to understand the standard functions that are normally part of shared services—that is, finance, HR and IT? Are there any genuinely shared services across all 32 local councils?

17:30

**Councillor Hagmann:** I will pass that question over to Kirsty Flanagan, as chair of the CIPFA local government directors of finance Scotland section, to answer its specifics.

**Kirsty Flanagan:** Paul Manning might be able to help me out, as well.

The question of shared services is quite challenging across all the authorities. Certainly, there is not a great desire—this is not from our council perspective—for people to share services with Argyll and Bute Council, where I work. It is quite difficult to share services across such a wide geography. Our council has a huge geography, never mind sharing across local authorities, and that makes things hard.

Although we would like to share services, it is not always practical to do that. I am not aware, in Argyll and Bute Council, of all the services that councils are sharing. I do not know whether Paul Manning can give any examples from the central belt area that could help.

**Michelle Thomson:** Everybody is looking at you, Paul.

**Paul Manning:** I cannot readily give an example, but I hope that we will try to properly document instances through COSLA. Earlier, I made a point about the changes that are likely to

come if and when we go to a national care service. That will bring the issue to the fore again.

**Michelle Thomson:** I have seen the document that was published in May.

To go back to your point, Kirsty Flanagan, sometimes we see facilities management, for example, being part of a shared services function. I accept what you said about the disparate geography of Argyll and Bute, but you have also pointed out that there is a lack of appetite across councils in respect of replicated functions—for example, finance directors, IT, HR and the specialisms. In any other commercial walk of life—I spent some time in commerce in a previous life—there is no way that there would be duplicated functions across the board. Hence my comment about appetite. On the one hand, councils complain about not having any money; on the other hand, it is clear that that is an area that should be looked at, as there are duplicated functions across 32 councils.

That is the point that I am trying to make, although I accept that there is the time issue and a cost.

I want to ask Kirsty Flanagan one more question. It is a bit of a technical question, so I hope that we can deal with it quite quickly.

You made a point in the submission about capital accounting. I know that that has been rumbling about for some time. Obviously, there are concerns about the planned review, but what was the driver for the concern? That issue has been raised a number of times, and something is now being done about it—it is being looked at. Surely a potential outcome is a positive one. I want to understand where your concerns are coming from and the assumption that the result could end up less favourable for councils.

**Kirsty Flanagan:** We have a great deal of concern about the capital accounting review. Local authorities are not comparable to profit-generating businesses in which assets are purchased to support profit-making activities and are depreciated to reduce the taxation payable by the business over the life of the asset. We hold assets to deliver services to communities for the public good. We put a notional charge through our accounting, and we have statutory mitigation in place that allows us to do that. If we did not have that statutory mitigation in place, the chances are that the charge that would be put to our council tax payers or our rent payers, in the case of the HRA, would be significantly higher, and that would—

**Michelle Thomson:** Sorry to interrupt. I understand that, but I am trying to understand the basis for your concern that that might change. Surely there could also be potential for a positive outcome. The overarching review has been

triggered by your lack of fiscal flexibilities. From your submission, I am not clear why you are concerned or what evidence you are offering to back up that concern. Has there been any indication from the Government that that is the intended way to go? I am not clear about that.

**Kirsty Flanagan:** We have heard comments that there would be positives, but, from a director of finance point of view, we are not sure what the positives are. We see only that there would be direct and increasing charges to council revenue, which would limit the amount of capital investment that we could make in the future.

**Michelle Thomson:** I will not labour the point, because I am conscious of the time; however, I am just not clear why you think that that will automatically happen. That is what I am querying.

**Kirsty Flanagan:** My understanding is that the review will look at the removal of the statutory mitigation that is in place. If that statutory mitigation is removed, there will be a bigger charge to the council revenue in the HRA.

**Michelle Thomson:** I get why that is the case. Have there been terms of reference for the review?

**Kirsty Flanagan:** We have seen terms of reference, and I think that the review is about to kick off in October, so we will get more information then. We will be involved in the review—we will have a seat on the group—which is welcome.

**Michelle Thomson:** Thank you.

**Liz Smith:** I have one question, Ms Flanagan, which is on the back of Michelle Thomson's first question to you.

I know what you are saying about the fact that some councils are not terribly keen on sharing services because they feel that that would dilute their best interests when it comes to delivering services. In the areas and councils that have delivered shared services, has there been an audit of how much money has been saved by having joint services? It would be helpful to know whether it is good practice, and having the information that Michelle Thomson asked about would be helpful to the committee.

**Kirsty Flanagan:** I do not have those figures to hand just now, but we could look to get them for you.

There is perhaps an opportunity for councils to look at sharing some services on the back of Covid. Prior to Covid, everybody was working in offices. For example, if my council had shared services with another authority, and that had taken a number of jobs out of our area, that would have been a concern for our local economy. However, now that more and more people are working

remotely and online, there will possibly be an opportunity to look at sharing some back-office functions. As a council, we will be exploring that, and others might do so, too.

**Liz Smith:** Thank you. It would be very helpful to have that information.

**The Convener:** I have a follow-on question. One way to look at potential costs is to consider the position in reverse. I was a councillor when Strathclyde region was abolished in 1995, when we went from having one social work department in the region to having 12. Each local authority suddenly had 12 directors of social work and 12 deputy directors and all the rest of it. If you looked at the cost of setting up shared services, it would be interesting to see what the potential savings would be.

**Councillor Hagmann:** We are obviously talking about finance today, but we have collaborative work going on in education. In my local authority, it is not only about the savings; it is about looking at the sustainability of services. For young people, due to issues of sustainability and rurality, having shared education services is their only opportunity to take certain subjects. Therefore, we need to be mindful of rural areas. We need to look at doing things in a different way, because it might not always be possible to do things in the same way. Again, it is about having the discussion.

Some local authorities are, even now, sharing services—in planning, for example. Local authorities are open to doing that because we are looking at ways in which to best deliver services for communities.

**The Convener:** Thank you. That has exhausted the committee's questions, so I will wind up the session. I remind colleagues that we will be back in our usual Tuesday morning slot next week, when we will continue to take further evidence on Scotland's public finances in 2023-24. I thank our witnesses for their participation this afternoon.

*Meeting closed at 17:40.*

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

---

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

---

All documents are available on  
the Scottish Parliament website at:

[www.parliament.scot](http://www.parliament.scot)

Information on non-endorsed print suppliers  
is available here:

[www.parliament.scot/documents](http://www.parliament.scot/documents)

For information on the Scottish Parliament contact  
Public Information on:

Telephone: 0131 348 5000

Textphone: 0800 092 7100

Email: [sp.info@parliament.scot](mailto:sp.info@parliament.scot)

---

