



OFFICIAL REPORT  
AITHISG OIFIGEIL

DRAFT

# Local Government, Housing and Planning Committee

Tuesday 24 September 2024

Session 6



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Pàrlamaid na h-Alba

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**Tuesday 24 September 2024**

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**LOCAL GOVERNMENT, HOUSING AND PLANNING COMMITTEE**  
**25<sup>th</sup> Meeting 2024, Session 6**

**CONVENER**

\*Ariane Burgess (Highlands and Islands) (Green)

**DEPUTY CONVENER**

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

**COMMITTEE MEMBERS**

\*Miles Briggs (Lothian) (Con)

\*Pam Gosal (West Scotland) (Con)

\*Mark Griffin (Central Scotland) (Lab)

\*Fulton MacGregor (Coatbridge and Chryston) (SNP)

\*Emma Roddick (Highlands and Islands) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Jo Armstrong (Accounts Commission)

Dr Jonathan Carr-West (Local Government Information Unit)

Blyth Deans (Audit Scotland)

Lucy Jones (Audit Scotland)

Abdool Kara (National Audit Office)

Derek Yule (Accounts Commission)

**CLERK TO THE COMMITTEE**

Euan Donald

**LOCATION**

The David Livingstone Room (CR6)



## Scottish Parliament

### Local Government, Housing and Planning Committee

*Tuesday 24 September 2024*

*[The Convener opened the meeting at 09:16]*

#### Decision on Taking Business in Private

**The Convener (Ariane Burgess):** Good morning and welcome to the 25th meeting in 2024 of the Local Government, Housing and Planning Committee. I remind all members and witnesses to ensure that their devices are on silent. Fulton McGregor MSP joins us online.

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

**Members indicated agreement.**

## Pre-budget Scrutiny 2025-26

09:16

**The Convener:** Our next item is to take evidence from two panels of witnesses as part of our pre-budget scrutiny for 2025-26. We have been joined by our first panel. Jo Armstrong is the chair of the Accounts Commission, Blyth Deans is audit director at Audit Scotland, Lucy Jones is audit manager at Audit Scotland and Derek Yule is a member of the Accounts Commission. I welcome the witnesses to the meeting and I invite Jo Armstrong to make a brief opening statement.

**Jo Armstrong (Accounts Commission):** I have a short statement. I am using my phone, but it is not switched on.

I am pleased to be here with my colleagues to talk about our insights into the financial challenges that the public sector faces. As I have shared with you previously, the impacts of the increased strain on council budgets due to growing demands, and to pay and other inflationary pressures, combined with workforce capacity issues, are beginning to have a direct effect on delivery of services.

Our audit work over the past year has continued to show the significant financial sustainability challenges that councils face, which are placing vital public services at risk. To ensure financial sustainability and to protect services not just now but in the future, transformation on a scale that we have not seen before must be encouraged and enabled across the whole system of public service—not just local government. Without that, communities will suffer.

We recognise that, for many years, councils have been transforming how they operate and deliver services. In a recent joint report with the Auditor General for Scotland on digital exclusion, I said that digital technology is a key part of much of public sector reform. However, the change that we seek must happen as pressures increase on staff, services and financial resources. At the same time, delivery of everyday services must continue—often, for the most vulnerable people in our communities.

Such is the importance of service transformation in local government and other parts of the public sector that our report that will come out next week focuses on the work that is being undertaken by the Society of Local Authority Chief Executives and Senior Managers and the Improvement Service to instigate a sector-led transformation programme. To achieve that, collaboration with the Scottish Government is essential, as is councils working with other councils, community planning partners and the third sector. As councils transform, they must engage with their local

communities, thereby ensuring the service that they deliver is person centred. That commitment was made by both the Scottish Government and local government in the Verity house agreement.

We in the Accounts Commission will continue to report on local government finances in early 2025, with a range of products that highlight the situation across Scotland as a whole and at individual council level, through annual audits and best-value reports. That is at the heart of what we in the commission are about, which is holding to account while also supporting and encouraging improvement wherever we see it and where finances are tight.

As always, I and my colleagues look forward to answering your questions this morning.

**The Convener:** Thanks very much. We will direct our questions to initially to Jo Armstrong, and you can bring others in. If anyone wants to come in, please indicate that to the clerks. As usual, there is no need to turn your microphones on and off; we will do that for you. We have about 90 minutes for this discussion.

I have a big-picture question. In your opening statement you said that local authorities must engage with local communities. How could the forthcoming budget process and local government settlement do more to empower local democracy and ensure that communities get the services that they need?

**Jo Armstrong:** That is interesting, because fostering local democracy and delivering the services that communities need might not be the same thing, so it is important that, if local democracy is the desired outcome, there are clear signals that that is what is expected.

Our experience is that speaking with communities is increasingly about encouraging them to assist local authorities to identify what services are required. That is not surprising, given budget constraints and the need to prioritise. As budgets get tighter, chief executives and council leaders are turning more and more to their communities for them to signal what is critical in their areas. Lucy Jones or Blyth Deans will provide specific examples to indicate that local authorities are increasingly speaking to communities about how to prioritise their expenditure.

**Blyth Deans (Audit Scotland):** I am happy to come in on that.

As part of our recent local government budgets briefing, we assessed the level to which councils themselves were engaging with their communities as part of the local budget-setting process. For the most part, councils were engaging with communities, but the overall conclusion was that more could be done in that space, which ties in

exactly with what Jo Armstrong said about the overall understanding of what is important and how the budget process itself can support local democracy and, in essence, give people what they need.

As you might expect, there is a range of approaches to the community engagement that councils undertake, all of which have merit, but there is not the degree of consistency that we might expect to see in terms of the methodology and frequency of that engagement and, ultimately, how that shapes the budget. We will keep that area under review as part of our work. The budget briefing that was published in May was a starter for looking at that.

**The Convener:** Blyth, have you seen any innovation in how local authorities are engaging with communities? In the committee, we hear about consultation fatigue. Have you come across any councils that are engaging with communities in a different way that is perhaps a more uplifting experience for people? People feel that they are consulted but do not then see a result of the consultation.

**Blyth Deans:** An “uplifting experience” might be hard to focus on, but there are certainly examples from across the councils that would lend themselves to that type of summary. There are approaches that target communication with what you might consider to be seldom-heard groups in order to give a space and a voice to a particular community group that has not had that in the past. Digital processes are also being used to facilitate more widespread community engagement through online survey tools.

We have not considered the merits of those tools in detail as part of this work, but it is important to highlight the fact that councils’ approaches vary. I will probably say that quite often today, but the Accounts Commission is keen to focus on that aspect—especially given the public opposition that some councils found themselves facing last year. When difficult decisions have to be made, it stands to reason that robust, meaningful and consistent engagement is needed in advance in order to avoid the scenario that unfolded in certain councils, where the public just were not happy and the options that were put forward were so unpalatable that people protested against them. Councils then had to reverse decisions. That ultimately impacts on the budget-setting process and the services that are provided to communities. We will continue to look at that as part of our financial work.

**The Convener:** Do you see any councils moving towards full-feature participatory budgeting?

**Jo Armstrong:** We are seeing examples of that. It is not nice to use the word “opportunity”, but given the financial constraints and the need to prioritise, there is now time—as well as a need and a desire—to explain the bigger picture to local communities, wherever they might be. If people understand the bigger picture, they can begin to understand how their individual requirement fits in. That might not be what they want to hear, because it might mean that a facility or service is no longer a priority. However, until we have proper communication about what the bigger picture looks like and honesty about what is possible, the ability to win hearts and minds at the local level will be harder.

The challenge that most local authorities have is, they would argue, that they do not have long-term sight of what their budgets will be, so it is difficult to know how they can paint the picture of the long-term vision for their services. We could argue that that is not an acceptable answer. I can see that it might be one way forward to say, “We continue to live year by year, because we don’t know any more than that,” but I am not sure that that is an acceptable answer.

**The Convener:** I am going to shift the subject a little, but I will pick up on what you have just said about the long term. As you know, the financial sustainability of local government is one of the main themes of our pre-budget scrutiny. We are interested to hear how sustainable you think the finances of our councils are. Should we be worried that what has happened to some local authorities in England could also happen in Scotland?

**Jo Armstrong:** At the moment, the auditors are not telling us anything that suggests that there is an imminent crisis. The challenges that are being faced down south are not the same as the challenges up here because, unlike the situation in England and Wales, we have always had an audit process and strong scrutiny of the sector. We have also not had the same financial engineering going on up here as happened down south.

The challenges are different, but the pressures are the same. Demand is rising and cost pressures are rising, so there is a financial sustainability challenge. We are seeing, when there is financial strain, that the availability of services, or the ability to receive services, will probably end up being reduced through eligibility criteria. Although we are not currently seeing financial crises or impending financial implosion, we are seeing the potential for demand not to be met, and that is not acceptable, either.

There is an opportunity and a need to be more radical in how services are provided. That is why we are saying that transformation of the kind that is required has not been seen before. That is about taking a joined-up approach to ensuring that

the services that are wanted and needed are delivered as efficiently and effectively as possible.

We need to be mindful of local democracy and local differences, but some elements are probably pan-Scotland and some matters are clearly local and need to be looked at as local. Person-centred service delivery is key, but there is a question about whether all the background infrastructure and non-front-facing service delivery sites need to be dealt with at the local level. If we have to make more out of less, we need to be as efficient and effective as possible.

**The Convener:** So, are you thinking about the administrative or backbone-type stuff?

**Jo Armstrong:** Yes. I do not like to describe back-office functions as something that could be done pan-Scotland, but there is a question mark over the capabilities and capacities of some authorities to deliver the necessary IT services that are ubiquitous and easy to use and meet all the cybersecurity requirements. Can that be done across Scotland, or could we piggyback on something that already exists that the Scottish Government has? It is about taking a joined-up approach: it is not just a local government challenge.

**The Convener:** There is certainly something in that. We have been hearing a lot about the need for data that is joined up across local authorities. For example, in housing, that could be data on how houses are built, where people are living and all kinds of other things. That is just one area that we hear about. There are also issues in planning. That could be part of the transformation.

09:30

**Jo Armstrong:** Certainly—we must get the basics in place first. We need to consider which services could be truly more efficiently and effectively delivered or available across Scotland—I am not saying what they are, but there will be some—and which services are truly local, so that we understand how the local maps on to the national.

To be building 32 IT systems and maintaining them—to be building 32-plus, which is already what the Scottish Government and all the local public bodies have—does not seem to make a lot of sense. I am not technical, but the efficiency and effectiveness of that seem to be questionable.

**Blyth Deans:** I thought that it might be helpful to expand a little on what Jo Armstrong said about the assurance processes that the commission has in place around local government finances. The annual audit is a key part of that—each council is subject to annual audit. There is also monthly reporting by the controller of audit to the Accounts

Commission. Anything that emerges as part of the audit work will be flagged to the controller of audit, who will then bring it to the attention of the commission.

There is also what we term a current issues process, whereby anything of significance that is emerging from the audits is brought to the attention of the commission and action is taken thereafter. The controller of audit and the commission also have a programme of section 102 reports covering best value. That gives the commission a chance to do a deeper dive into a certain area or aspect of best value, which is a great chance to highlight any emerging significant concerns.

There is also a report that the controller of audit brings to the commission on assurance and risks across local government. As part of that, the commission will then select a thematic area of focus for the next round of best value work. The current best value work is focusing on workforce innovation and the next round of work will focus on transformation.

That was a really long way of linking back to what Jo just said about the need for transformation to support financial sustainability.

**Derek Yule (Accounts Commission):** I will add a couple of things to that—perhaps from a different perspective. You mentioned in your question some of the failures in England. Some of the research that we have done to try to find out what was behind that was around governance. What we are saying about the best value process and doing that deeper dive into the governance structures in councils is very important in getting the assurance that there is a good relationship between members and officers and knowing how financial advice is being acted on.

We recently issued a blog stressing the importance of the role of the chief financial officer. We often see that the role is wider than just finance for many of the section 95 officers in Scotland, or it is down at head-of-service level. One of the assurances that we sought from the auditors was that the chief financial officer would be at the top table, so to speak, of councils and that they have a good working relationship with members as part of that process.

**The Convener:** That is very helpful. Blyth Deans, I liked that you laid out the process and mentioned that things are unearthed through the series of work that you have been doing on those areas of focus.

Given the forecast financial environment, how robust are the financial plans that are being developed by councils? Obviously, they are probably different for different councils.

**Jo Armstrong:** Very much so. Again, that reflects the different capabilities and capacities across the sector. However, as I said earlier, I do not think that is acceptable to argue, “We can only give you a one-year budget because we only get one-year funding”. We have signalled, and will continue to signal, that we expect medium-term financial strategies to be developed. They will have assumptions in them, some of which will be more heroic than others. However, to assume that there will be no funding in the future is probably unrealistic; there is definitely value in assuming the same level of funding in the future.

As we have signalled in our most recent report, we expect to see all local authorities developing medium-term financial strategies and, which is probably more important, for those strategies to be developed in a way that is understandable by councillors and communities, and—to be honest—by us, because sometimes they are a bit opaque. However, their importance is critical.

**The Convener:** Thank you very much. I will bring in Willie Coffey.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** Good morning. I will start with you, Jo. The committee often hears extremely different points of view depending on who is sitting in your chairs, particularly about local government finances. The Improvement Service benchmarking framework seems to present a more positive picture of local government finances, certainly in terms of debt management and healthy reserves, but on the other hand we hear from our colleagues in the Convention of Scottish Local Authorities about how serious the position is. Why is there such a divergence in opinion when in essence we are talking about the same thing—local government finance?

**Jo Armstrong:** I would not want to put words in the Improvement Service’s mouth, but I am not particularly sure that it would say that the position is healthy. Some of its data would suggest that performance is getting worse rather than better.

Understanding the reserves issue is critical. To think that a healthy balance sheet reserve is a reserve that can be used for funding services day to day is misleading. Blyth Deans and his team are undertaking an analysis of all the reserves that are kicking around. It does not help the debate about what is needed if, on the one hand, a council thinks that everything is going well because it has large balance sheet reserves, but, on the other hand, that reserves are limited—2 per cent of net expenditure—and that cuts to services are needed.

We take responsibility for trying to unpick what is happening on reserves, because getting that bottomed out will help to foster a debate about



what service levels look like and what we need to deliver the services that we expect.

**Blyth Deans:** Jo Armstrong summarised the local government benchmarking framework indicators well. The commission definitely supports that sector-led monitoring of performance and it is a very helpful tool, especially for us as auditors. It is important to say—if the LGBF board was here, it would say so—that the framework operates almost as a can opener to further analysis. Although it presents a headline picture, it can hopefully direct towards a more detailed review of what those indicators tell us.

It is also important to note that the sector is very much aware that the indicators need to be kept under review. If that type of question is being asked, it might suggest that there is scope to include additional indicators in the financial sustainability space. That is a relatively recent development as part of the framework—a helpful development, we would say—but there are other indicators that could be included that might help to tell more of that story.

It is a bit of a “Watch this space” for now, but, as I say, the commission would very much support the use of the LGBF to monitor financial sustainability and resilience.

**Willie Coffey:** We have mentioned the reserves position before at the committee, and we have probably asked you about this, but we cannot seem to agree what the indicators are. We have categories such as contingency funds, earmarked, unearmarked, committed and not committed. There is a myriad of terms that, frankly, we struggle to understand, so we do not know where the various bits of money that local authorities have tucked away are and what they will be used for. I have probably asked you this before, Jo, but do you think that we will get a clearer picture and an agreed set of criteria for that stuff?

**Jo Armstrong:** We certainly want to unpick that, Mr Coffey. I would argue that prudent financial management suggests that you want to put money away here, there and everywhere to be able to cope with the pressures that you know are likely to come. There will also be unknown pressures that you have to be able to finance, so having reserves is a good thing. Having a reserves policy on how they are used is important. We want to understand how each local authority is identifying what its reserves policy is and making that clear to council leaders, councils and communities.

Having reserves is not a bad thing—it is a good, sound financial management tool, but we are equally bemused about what all those headlines mean. Trying to unpick that is part of a piece of work. When will that come out, Blyth?

**Blyth Deans:** That will be in January, for the next local government financial bulletin. I am conscious that I have probably offered similar answers to the committee in this space before, so I will try my best not to repeat what I have said, but, as Jo touched on, we are keen to see a bit more clarity and transparency, particularly around purpose and timing. There are certain sets of accounts that are pretty clear on the purpose of each reserve—there is lots of detail—but others are very much at a headline level, which makes it difficult, as you have correctly pointed out, to determine what they are actually for.

There is also something on the appropriate timing for holding a reserve and the kind of horizon that we would be talking about, even if that could be in a broad sense: so, would the reserve be held for three to five years, or would it be spent within the next 12 months? Again, that would help the understanding of the relationship between the reserves and overall financial sustainability.

Reserves policy and strategy is a big focus of our work at the moment. We are very keen to look at that in a bit more detail and understand more about the status and profile of those policy and strategy documents across councils, how well sighted the public are on those documents, how frequently they are reviewed, and how they link to the medium-term financial strategy. As you can probably tell, there is a lot going on just now, on which we can report to the committee after the report is published in January. We are keen for there to be further work in that area and for transparency to be improved.

**Willie Coffey:** Would you see yourselves recommending some kind of consistent, standardised way of describing the issue? Would you ask the Government to formalise it so that we do not continue to get a varying picture, depending on which council we talk to? Would that be a useful tool?

**Jo Armstrong:** Do I dare to step into the role of being a regulator that is dictating, other than an auditor that is auditing? I would rather be in the latter role than the former. If the committee were to ask for something that would help, we would certainly look to support you in that, if you wanted us to do that. We are not regulators, we are auditors.

We have signalled a desire for there to be clarity on what revenues are being received, what the expenditures are, what the gap is before each council would have to use a reserve and how they are using those reserves. Through our analysis, we will build some kind of understanding of how clear or otherwise that reserves picture looks. Through our work, we may end up making some sort of recommendation, but I would not have thought that we would dictate a requirement.

**Willie Coffey:** My other question is about capital funding. Do councils have any mechanisms open to them for capital funding, other than capital grants, borrowing, and so forth? Are there any other measures that they may be able to deploy locally so that they can deliver?

**Derek Yule:** You have mentioned the main two mechanisms. Capital receipts from the sale of assets is another area that councils can use, or they can use an element of their revenue budget to finance capital expenditure. The use of that has probably been more common in the housing environment in the past than within the general fund, but the mechanism is available to councils.

**Willie Coffey:** Do you know whether many councils are deploying that?

**Derek Yule:** I could not honestly tell you the position at the moment, although I think that it is less common. Typically, the level of capital receipts has probably dropped off over the years—it is a much smaller proportion. Did we do any analysis on the funding?

**Blyth Deans:** Yes, we did. I do not have the figures in front of me, but from memory, Derek Yule is right that capital receipts make up a pretty small proportion of the overall expenditure—I think that it was less than £1 million out of £3.5 billion in spend. It varies across the country, depending on what the asset base looks like and what councils can and cannot sell. As Derek said, allocating capital funding from current revenue feels as though it will not be happening too often, as capital is being used to fund revenue pressures. That feels as though it is a shift in position. I anticipate that our financial bulletin, which we will release in January, will set out the sources of capital finance. I hope that we will be able to draw some conclusions on that.

**Lucy Jones (Audit Scotland):** I have the percentages, if you would like them. For internal revenue funding, it was 7 per cent for 2024-25 and the capital receipts were down at 4 per cent. They are quite minor contributions.

**Willie Coffey:** I look forward to the update that will be published in January, as it will clear up all those issues for us. Many thanks for your answers.

**The Convener:** Before we move on, I will pick up on the indicators. Blyth Deans said that there might need to be new indicators. Should we wait until your report is published in January for that response?

**Blyth Deans:** Possibly. I am not sure whether it is for me to sit here and direct the local government benchmarking framework board towards specific indicators that should be used, but there are certainly elements of our reports that

might lend themselves quite nicely to identifying an indicator that could help to assess financial sustainability. I can offer a few thoughts on those now, although certainly not to direct the benchmarking framework board. A big part of that would be the relationship between recurring and non-recurring savings. That would be a helpful barometer to indicate which councils are generating the savings that will contribute to financial sustainability and which are making savings that are a bit of a plaster over a wound.

09:45

There is also the use of reserves. The indicator that looks at the percentage of net revenue spend is helpful, but analysis in our reports shows which councils are having to use reserves to balance budgets. That might give a sense of trend, where a council is perhaps not getting close to depleting its reserves but is on a trend towards financial difficulty.

That is enough for me to say now, but we know that that is an issue that the sector is taking forward and that it is keen to enhance the effectiveness and helpfulness of the suite of indicators.

**The Convener:** Thank you for that detail. I will bring in Miles Briggs.

**Miles Briggs (Lothian) (Con):** Good morning to the panel and thank you for joining us.

I want to touch on the Verity house agreement. What is your understanding of developments towards the fiscal framework and the monitoring and accountability framework that were included in the agreement?

**Jo Armstrong:** It would be fair to say that we have not yet received anything on that. I believe that things are going on in discussions. We have taken the view that we do not wish to be part of the development phase. If we have to monitor and give assurance, we cannot be marking our own homework. We look forward to receiving it. We think that it will be an important part of how we get comfortable with the transformational change that will be required as part of that joined-up approach around financing and the expectations in terms of outcomes. However, I have not seen anything yet. I encourage them to go faster.

**Miles Briggs:** When would you expect to have that shared with you?

**Jo Armstrong:** I have had no indications of that yet. Has anyone else had any indications yet? No.

**Miles Briggs:** Thanks for that. We have had conversations over the years about reforms and commissions. Looking specifically at the aims of the Christie commission back in 2011, has that

helped your work to move towards preventative spend and the reform of public services? To loop back to the Verity house agreement, will that help to update that, in your sense, to try to take forward that work?

**Jo Armstrong:** Again, I will turn to my colleagues in a minute, but it would be fair to say that movement towards preventative spend has not been as fast or as far as I think people thought was possible and certainly as Christie suggested was needed. In fact, some of the cuts or the other ways that we are seeing of managing budget challenges are potentially diminishing further movement towards preventative spend.

That is where the transformation that we are looking for needs to be much more significant than is currently the case. It is not about just salami-slicing efficiency savings; it is about taking a step back and asking what it is that we want to deliver and how we can reduce the demand side. To some extent, that is by increasing the use of preventative measures, instead of dealing only with the inevitable rise in demand, given the demographics of the country. I would hope that the Verity house agreement discussions on what outcomes are expected would be part and parcel of that process.

Does anybody have other comments to make?

**Blyth Deans:** I can add to that briefly, on the shift to preventative spend. In the past, we have reported and spoken to the committee about the protected versus unprotected services element. When it comes to funding, a lot of the preventative measures would fall under unprotected services. Hence, the cuts to those services have made that shift more difficult. That feels like an important part of the story and the Accounts Commission has reported on it in the past.

**Miles Briggs:** In the Accounts Commission's submission, you state that councils

"urgently need to transform how they deliver services to become financially sustainable."

You have touched on the potential for savings and efficiencies of a once-for-Scotland approach around information technology—I think that NHS Scotland, for example, has been moving towards that—and around procurement. What would you like to see included in the forthcoming budget to take that work forward and to look towards how councils can collectively work together to become more financially sustainable? There is potential in some of the work, for example of my council in the city region area, to implement the sharing of resources and expertise, especially in planning and things like that.

**Jo Armstrong:** It is an opportunity and it is a real pressure. There is fear of a potential failure

that stops activity happening. We are at the stage of not being quite sure whether we are willing to take forward something that might be different to what is normal and expected. If it does not quite work out, who will then be accused of not doing their job properly or of being poorly briefed? Failure is a bad thing in the public sector.

My colleagues can chip in if they feel that there are additional things to say. The ring fencing does not help, because it means that there is an expectation of outcomes that might not be totally relevant for each local authority. I am not saying which services, but councils having some ability to switch and veer funding where outcomes—as specified by communities; it is about communication—might be a better route to delivering more efficiency more effectively.

For me, the incentive system works. If the budget were able to say to councils that, if they increase their communications, identify what is needed and convince the Government that the approach that they are choosing to take is as efficient and effective as possible, more money might come.

The budget cycle is really, really, really challenging, as we all know. There is not a lot of extra money around, so how do we incentivise leaders to take risks and do something more radical than would otherwise be the case? It is important to think about how we support that leadership as best we can.

Transformation will not happen quickly—that is the other thing to say. Financial sustainability will not be supported by quick transformation; it has to be long-term. Between the time of doing the difficult thing and being more innovative, we have to keep delivering services. Councils need to have an honest debate and communicate with their service users and communities an understanding of where priorities will have to be made. Again, they could be incentivised to do that. Otherwise, we will face a salami-slice approach that reduces services rather than increasing the opportunity to do more.

The city region work works, but it is clearly not relevant for all parts of the country. There is a need to be absolutely honest about whether we can do everything in the geographical area of a local authority's responsibility. Some issues are not just local government, but run across the public service. It is about connecting with communities and the third sector in a way that might be an anathema to some, but if we want to make sure that the outcomes for users are as good as possible, we need to be that radical.

**Miles Briggs:** Does anyone have anything else to add?

**Derek Yule:** I have a couple of thoughts. Jo Armstrong mentioned ring fencing. There is a bit in there about directed spend and the role of councils in local decision making, and that links into the communities.

Another thing that has been mentioned is multiyear funding to give councils some degree of certainty about funding. We talk about different delivery models. For the third sector, for example, which often receives funding from councils, one of the biggest barriers to planning and delivering services is working with that unknown factor over a number of years.

Another thing would be some funding for preventative measures. It is not just about money; some of it is about behaviours and how different parts of the public sector, the third sector and the private sector work together and come up with transformational ways of working. That is not necessarily about money, but there are probably some areas in which some directed funding for preventative measures could give an incentive to avoid some of the things that Jo Armstrong is talking about in terms of the difficulty of maintaining what you do currently. Where does the money come from for transformation as part of that?

**Blyth Deans:** If I may add to that, on your question about the once-for-Scotland approach, Mr Briggs, the sector is very much working on that through the SOLACE and Improvement Service transformation programme, which is one of the key elements of some of the short-term projects in relation to more effective collaboration, particularly around procurement.

However, through audit work and engagement with the sector, we have also found some relatively small-scale examples of sharing services. For example, internal audit is shared across Glasgow and Shetland and Dundee and Angus, and, from what we hear, that is working well. Albeit that that is on a small scale, there are principles and fundamentals that could be scaled up to get to the scenario that you painted, particularly around control, governance and impact. There is some activity in the sector that will help to get things to that point in the near future.

**Miles Briggs:** On that point, have you done any work to map where councils have looked to change services—for example, putting bin services out to tender—and efficiencies that that has delivered for councils and where other councils have taken a political decision not to do that, so that we see services being delivered in different ways at different costs in all 32 councils?

**Blyth Deans:** We have not done that, but I mentioned earlier that the focus of next year's

local best value work will be transformation. As part of that, we are looking to draw out examples of exactly what you described with regard to activity, exercises and steps that councils have taken to transform services, so that, ultimately, the commission will be in a position to share those examples across the rest of the country to promote learning and, as you say, improve the efficiency of that approach. Although there have potentially been examples from previous best value reports, I would focus on the work that will kick off next month and be reported on thereafter.

**Pam Gosal (West Scotland) (Con):** Good morning. Every year, we see local government and central Government scabble to find enough money to meet the pay demands of the local government workforce. Given that employment costs are around 70 per cent of local authority revenue budgets, how can pay deals be managed more sustainably and strategically?

**Jo Armstrong:** Goodness! Again, to be honest with you, I do not feel that I have the competence to argue about how to be better at negotiating pay deals. However, if the current process is not proving to be adequate, there are plenty of people out there who would argue for how to make it better. It requires a joined-up approach, and I believe that the current process is at least joined up and probably has all the key players in the room, when that is critical.

The issue for us is the honest discussion with communities about what services are needed, the cost of those services and, therefore, what is possible and deliverable and then having a debate about priorities. If that has an effect on what the pay bargaining arrangement looks like, that is where it should start from, rather than the other way around necessarily.

**Derek Yule:** I go back to the point about multiyear settlements. As Jo Armstrong said, the processes are in place to have dialogue and negotiation. Sometimes, having a public sector pay policy for one year at a time can be a challenge. Notwithstanding that, there have been attempts to get multiyear settlements. Again, if you know what the funding is going to be over multiple years, that helps with negotiation.

**Pam Gosal:** Last week, the committee took evidence about the fact that lower pay for councillors is a barrier to many people, including people from ethnic minorities, disabled people and women. Budgets are tight, so how do we balance high levels of public service and adequate council pay? Do you have a view on that, Jo Armstrong?

**Jo Armstrong:** No. Again, you are verging on the policy side of things, which I do not have a view on. The research and strategy work to identify how to deal with that must be the route to

a solution. I have nothing more to add on that, I am afraid.

**Pam Gosal:** Does the rise of £1 billion in council debt between 2021-22 and 2022-23 give rise to sustainability concerns for council finances? At what point does council borrowing become a problem?

10:00

**Jo Armstrong:** I will look to Blyth Deans or Lucy Jones to give the details, but borrowing is needed for developing assets and infrastructure, so I would not be surprised to see borrowing rise as new projects are being developed. The learning estate investment programme requires local authorities to borrow to allow them to develop new schools, so it is not too surprising.

To get access to Public Works Loan Board debt, you need to be able to show that it is affordable and is within the budget capabilities of the local authority. Again, the likelihood of financial challenges around that needs to be taken into account. The PWLB will have done its homework to show whether the debt is an affordable addition to any debt burden. Additional debt will cause problems in the future, because there is an ongoing commitment to pay it back, but the affordability of that is to some extent tested by the PWLB when debt is taken on.

**Blyth Deans:** I will go back to what I mentioned earlier about the various layers of assurance that the commission has. One of the fundamental building blocks is the annual audit. If there were to be significant concerns about the debt profile of an individual council, that would be raised as part of the annual audit, which would catch the attention of the commission and there would be further work thereafter. We are not seeing that, at the moment: nothing is coming through to us that would suggest that the level of debt at a local level, although challenging, is problematic in the sense that it requires further work.

There could be good reasons why debt increases in a certain year. For example, for the City of Edinburgh Council within 2021-22 there was an increase in the level of debt because the interest rates were at a level at which borrowing was quite attractive. The council anticipated that, in future years, the interest rates would not be quite so attractive: hence, borrowing at that time saved it from having to borrow at a higher rate in the next year.

Most of that borrowing will be determined by a local treasury management strategy as well, and the council will be bound by the prudential code. There are safeguards and boundaries in place to protect a council from straying outwith the limit and to keep elected members briefed on where the

debt position stands. There are various layers of assurance. We will continue to report on the national position, but we have not had to look at anything with a level of detail that would suggest that there is a major red flag, at this point.

**Pam Gosal:** Thank you.

**Emma Roddick (Highlands and Islands) (SNP):** Good morning. Can the commission point to any examples of good practice in community engagement in budget decisions?

**Blyth Deans:** I think that I mentioned earlier that we looked at that as part of the paper "Local government budgets 2024/25" that was published in May. As part of that, we captured quite a varied picture of levels of activity and methodology. I have a list of councils, so I can give you a flavour of what we found across some of those examples.

Clackmannanshire Council engaged well with communities when setting its priorities. There was a four-phase community engagement programme, and Clackmannanshire Council committed 2 per cent of the revenue budget to participatory budgeting, which was brought up earlier. That is obviously a very small proportion, but that commitment is a good thing in terms of empowering the community in directing how that money is spent.

Falkirk Council is another example of a council that used public engagement for key decisions around issues including swimming pool closures. That is tied to what I mentioned earlier about doing things that feel unpalatable—facilities being taken away, for example—and public opposition to that. In the current climate, councils are facing difficult choices, so it is really important that they have those conversations up front.

Earlier, I mentioned Dumfries and Galloway Council, which targeted communication with seldom-heard groups—groups that are not easy to miss but that probably have been missed in the past—in relation to accessibility of information, and took on board feedback that ultimately affects everyone. That is something to highlight.

Everything else is much of a muchness; it feels that it is along the same lines. That is something that we will continue to look at as part of the budget briefing for 2025-26, which will come out next year.

**Lucy Jones:** There were good examples. We know that 24 councils consulted during the budget process, but six did not consult at all, which is quite worrying. There is a balance to be struck, and some councils are engaging really well, while others are not engaging at all. Given the pressures and the need for transformation, it is imperative that councils that are not currently engaging start

doing so. The next step for them will be to start doing it well.

**Emma Roddick:** Participatory budgeting is a way for communities to feel that they have a stake in council budgeting decisions, but those who are not in the majority can be missed when it comes to decisions on where investment, or progress on the realisation of rights, may be required. How should councils engage with a community without allowing minority voices to be overshadowed?

**Jo Armstrong:** That is a valid challenge. Participatory budgeting can be extremely powerful, but you are right to highlight that it often brings in engaged citizens who want to get involved. Again, that is about having a long-term communication strategy for what is needed and what is wanted, and about thinking how to engage better not just with the engaged few, but with the many. That takes time—we cannot simply turn on a switch and have it happen overnight.

The extent to which participatory budgeting gives citizens a taste for such involvement is a good thing. Using the ability to make major changes with a minority group through a participatory budgeting process would probably be the wrong thing to do, but engaging in the way that we have discussed, at this stage, is a good thing. It starts to make councils aware of the power of the voice of the community, as opposed to dictating to communities what is available and what is possible. I would not want to say that local government dictates, but the alternative approach can be to say, “This is what’s available” rather than asking what is possible.

It is about opening up the process and releasing a level of control. If we ask but we do not give, we will not get those people back to our table. We need to be speaking and listening to those people, then telling them what we have done so that they feel engaged.

**Emma Roddick:** Tough decisions are having to be made across the public sector, and that undoubtedly means that some very worthy causes are not getting as much money as we would like them to get, or that money is having to be moved from something that requires investment if it is going to cause change. When councils are having to make those tough decisions, is there enough communication from them on why decisions are being made and how long the situation is expected to be that way for the group or the issue in question?

**Jo Armstrong:** I will go back to my colleagues on that, but the fact that there has been judicial review in some cases would suggest that communication has not been adequate. I do not know the extent to which judicial review has fundamentally changed what is happening—

ultimately, if there are budget pressures, something still has to be cut. Whether that is a project that did not get funding the first time round or something else does not matter—communication is critical.

On the extent to which communication is adequate, we are all engaging a little bit differently, and we are all beginning to feel the need to understand a bit more. Perhaps Blyth Deans can pick up on points on the communication strategy that would help in that regard.

**Blyth Deans:** I am not sure that this will help, as we did not assess the effectiveness of those exercises as part of our work, but that is a legitimate question. I will follow on from Jo Armstrong’s comments about how important communication is in the overall process.

We also considered things such as the extent to which councils used equality impact assessments as part of the budget-setting process, and we found that not all of them did so. That was another strong finding from the report, so it is definitely an area for us to continue to focus on, as we move forward. We recognise, and have commented on, the importance of effective, robust and genuine community engagement as part of the budget-setting process.

**The Convener:** Blyth Deans mentioned that Clackmannanshire Council gave 2 per cent of its budget to participatory budgeting. We have participatory budgeting in Moray, but people are now starting to refer to it more as participatory grant making, because it is not really getting to the heart of the council’s budget. It is more about communities choosing to fund good community projects, rather than going back to the original idea of communities engaging in setting the council budget. That idea came from Brazil, I think, where communities were really getting in there and deciding about buses and engaging at that level of decision making. Is that happening in Clacks, or are we still at the grant-making stage because that process acts as the training wheels in getting a sense of agency into communities?

**Jo Armstrong:** Blyth, do you have any more insights into what was done in Clacks?

**Blyth Deans:** No, but I would be happy to write to the committee with more on that. It provided a headline 2 per cent of the budget, and we have not looked at that in too much detail, but I absolutely recognise your point about whether the process is truly participatory budgeting or is, as you said, more about the allocation of grant funding. I am happy to come back to the committee on that.

**The Convener:** Thanks very much.

**Mark Griffin (Central Scotland) (Lab):** Good morning. The Improvement Service and SOLACE are working on six short-term local government transformation projects. Do you get updates on those six projects, and are any themes developing that might assist councils in bridging some of the expected budget gaps in the next year to 18 months in the projects that are to be delivered?

**Jo Armstrong:** Again, perhaps Lucy Jones and Blyth Deans will fill in with details, but we do not currently receive any updates.

We are conscious that the programme is aspirational, and that a number of chief execs are fully engaged. I am not sure, however, that that applies across the whole sector, at this stage. My understanding is that the work is principally being taken forward on the back of their non-day-job work.

The extent to which you can do transformation that is truly transformational and will work and be scalable depends on resource and teams that are dedicated to doing that. We are asking for more detail on the quantum of change that is required, the budgets that are to be developed and the timelines and targets that are to be achieved. I question the extent to which that is possible within the current resource, but the intent is absolutely right. The greater the extent to which more spend and more dedicated resource for that can be encouraged, the better.

**Lucy Jones:** We have reviewed a number of progress reports that the transformation programme has produced. The last one was in late spring or early summertime, I think. At that point, the six projects were progressing quite well through the discovery phase—the planning stage—and were bringing in expertise in the areas that they are about. The aspiration was that, during the summer, that would move on to developing business cases for each of the projects.

They are set as 12 to 18-month projects, and they kicked off in January, so they are almost 10 months in. We expect progress to pick up, if achievement of them is wanted. The idea is that projects will be implemented within 12 to 18 months, but the outcomes might take longer. As Jo Armstrong said, there are already issues around the capacity of the workforce to deliver the projects. The aspiration exists, but the challenges of delivery and implementation are quite high.

**Blyth Deans:** I do not want to link everything back to reserves, but there are lots of examples of transformation funds, modernisation funds or change funds in council reserves. As Jo Armstrong mentioned and as Lucy Jones has rightly set out, things are still at quite an early stage, but it would be interesting to see the

approach that councils take in utilising some of those balances to support the programme and perhaps accelerate things, so that we see the progress that we would expect.

We will have a report out next week on the current status of that transformation programme, which is led by SOLACE and the Improvement Service. We hope that that will be a useful stepping stone on to the local transformation work that we will start in October. It is a strong area of focus for us, for the time being.

**Mark Griffin:** Do councils have adequate capital funding to maintain and develop the community facilities and infrastructure that people expect? There is also the issue of the capital funding requirements that councils will need further down the line in order to meet our expectations with regard to housing and, in particular, net zero.

10:15

**Jo Armstrong:** Capital funding is a serious challenge from the point of view of being able to maintain existing assets while developing new assets, and if you have to switch capital funding to revenue funding, that adds to the burden of doing that effectively. Do we have updated information on the capital plans across the sector as opposed to each individual audit?

**Blyth Deans:** No—not at the moment.

**Jo Armstrong:** Therefore, we do not have a detailed understanding of where the capital requirements are across the sector. It is for each local authority to determine its capital plans and the extent to which capital is allocated to new developments, as opposed to refurbishment or net zero.

Part of the challenge that local authorities face is that they probably do not have enough capital, but I do not think that anybody would have enough, given the net zero challenge. That is not to say that the net zero challenge is wrong; it just represents a really significant capital requirement. The joined-up approach is absolutely essential, to ensure that we develop effective and efficient processes to do that.

**Derek Yule:** It is almost like pieces of a jigsaw, and I would probably highlight three things that councils should have in place—perhaps stepping away from what they should be spending because, in a sense, those are decisions that councils need to make. We have spoken about a medium-term financial strategy that would set out the revenue funding requirements over three to five years, as a minimum. One of the constituent elements of that should be linked to the council's capital investment strategy, and its borrowing or funding strategy should be linked to its treasury management. The

decisions that the council needs to make with regard to how it prioritises capital investment alongside revenue expenditure for day-to-day provision of services are value judgments that the council needs to make.

The building blocks are in place in terms of the various strategies and flexibilities that councils have with regard to capital alongside revenue—I almost said against revenue. Those are the choices that they have to make. How they then choose to prioritise their capital investment with regard to affordability, linked to the revenue budget, would be a local decision. I suspect that they will all argue that they do not have enough money. However, with regard to the various bits of the system as it operates, councils should be able to make choices within what it sees as the level of affordability that is available to them.

**The Convener:** You might not have anything further to add, but I want to point out that we talk about net zero with regard to emissions reduction, but we also have the situation in which many councils that are coastal—and even those that are not coastal—are facing flooding and that kind of thing, which is more about the climate adaptation part of the net zero mix that councils need to address. Do you look at that?

**Jo Armstrong:** I agree that net zero is definitely not just about emissions. We are actively looking at flooding and how we can assess the extent to which the flooding challenge is being addressed effectively across local authorities. The timing for such a report is yet to be determined, but work on that specific topic is part of our strategic intent for the next 12 months.

**The Convener:** Thanks for that.

I come back to financial sustainability, which I asked about earlier. Some local authority service areas are experiencing significant cost pressures—as we have been discussing all morning—in particular, adult social care. I am not asking you to single out any local authorities, but do you see a pattern in terms of a connection to demographics or something like that?

**Jo Armstrong:** To be fair, we have not looked at whether there is a correlation between the spend and the challenge. With regard to suggesting that those are directly linked, we have to make sure that each service provider—rather than each local authority—is providing the service as efficiently and effectively as possible. To some extent, we need to ask whether every service is the right service, whether every provider is the right provider and whether we have the right efficiencies in each providing service. That is an easy, although not glib, challenge back. If it is being said that there is not enough, we need to ask whether we have made the best use of what

we have in order to ensure that we can then say that we need more. I am not sure that we could necessarily say that services are as efficient and effective everywhere as we hope that they would be.

**The Convener:** We have come to the end of our questions, but we have a bit of time in hand, so if there is anything that you were expecting us to ask about, or anything that we have not touched on, we have time for you to add to or emphasise what you have said.

**Jo Armstrong:** The transformation is not easy. It will be significant but it will not be quick, so there are two challenges around maintaining solvency and service delivery while you transform, and around whether the transformation is the right one.

The transformation is not just about local government; it is across public services. That mindset needs to start to be part and parcel of the debate and the challenge back. I urge the committee to use its powers to challenge back on public services rather than on the public sector because, ultimately, public services are what communities and individuals want, as opposed to the public sector getting its house in order. Therefore, the challenge back to you would be this: can you use this mechanism to challenge those who are providing the services to ensure that they are providing the right services in the right place at the right time?

**The Convener:** Thank you very much for that challenge—we will look into that. Thank you so much for joining us this morning. It has been a useful and insightful discussion, including that pointer and some other things that have come up that the committee can take further. We will look forward to hearing from you after the January report comes out.

**Jo Armstrong:** Thank you very much.

**The Convener:** I briefly suspend the meeting while arrangements are made for our second panel of witnesses to join us online.

10:21

*Meeting suspended.*

10:26

*On resuming—*

**The Convener:** We are now joined online by our second panel this morning: Dr Jonathan Carr-West is chief executive of the Local Government Information Unit, otherwise known as LGIU; and Abdool Kara is executive director at the National Audit Office. I welcome the witnesses to our meeting, and I invite Jonathan and Abdool to



begin by making brief opening statements. We will start with Jonathan.

**Dr Jonathan Carr-West (Local Government Information Unit):** LGIU is a membership body that works with councils across the United Kingdom, the Republic of Ireland and Australia. We have 27 of Scotland's councils in our membership. Our evidence today will be drawn from a survey that we do every year, asking councils about their financial sustainability, and from our experience from looking at councils in other jurisdictions.

The picture in Scotland is pretty bleak, it has to be said. When we ran our survey in November last year, we surveyed chief executives, leaders and chief finance officers. Of the 42 who responded to our survey, only one said that they were "quite confident" in the sustainability of local government finance. They all cite inflation, central Government ring fencing, workforce pressures and demographic change as the key factors that are driving financial crisis.

As you will have heard and seen in other submissions, the Accounts Commission estimates a budget gap for Scottish councils of about £580 million. This is a critical time to examine the financial sustainability of local authorities in Scotland. I am sure that we will talk about this later, but almost a dozen councils in England have effectively gone bust. The situation is different in Scotland, and you have heard how there are different risk factors, but I do not think that we can be complacent about the risk of failure in Scottish councils. As one chief exec told us, it is

"only a matter of time".

That does not just mean a risk of councils failing to set their budgets. What are they doing in order to stay solvent? There is a real risk of services being cut to the point at which they are no longer recognisable and no longer acceptable to service users.

This is the right time to be having the conversation. We very much welcome the committee considering the matter, and we urge the Scottish Government to take account of what we think is a perilous situation, although we still have time to act before we see councils going over the edge.

**Abdool Kara (National Audit Office):** Thank you for inviting me. I am executive director at the National Audit Office. My team shadows a number of Government departments including education, health, the Home Office and, for our purposes today, what is now the Ministry of Housing, Communities and Local Government. I spent most of my career in local government, up to and including being a chief executive, so I can draw on that background in taking a backward look.

I also draw on the National Audit Office's work on local government financial sustainability, on governance in local government, on commercial investment and so on, as well as on particular demand areas, such as homelessness—we produced a report on homelessness in July this year—special educational needs and adult social care. I also draw on my wider experience and knowledge of the sector.

10:30

Just to be clear, we in the NAO do not cover Scotland, so what I will share with you will be my experience of what has happened in local government and maybe some of the traps and pitfalls to avoid. We are also not the external auditor of individual local authorities in England. They have their own external auditor; we take more of a systems look on behalf of Parliament.

**The Convener:** Thank you very much. That will help us in considering what questions we direct to you. We will try to direct questions to one or other of you initially, but if you would like to come in, type R in the chat function and the clerks can let me know and I will bring you in. We have about 90 minutes for this discussion.

The point of the session is to understand what has happened to some English local authorities and to hear about the lessons learned as regards financial sustainability for Scotland.

Jonathan Carr-West, are the drivers of financial weakness that have been identified for Scotland similar to those for councils in England and Wales, and are there differences between the Scottish and English local government finance environments that could impact on financial sustainability?

**Dr Carr-West:** The simple answer is that there are a lot of common factors. When we look at some of the key drivers of demand, whether it be an ageing population, an increasing amount of special educational needs provision or challenges around homelessness and temporary accommodation, we see that demand and the cost for councils is going up. That demand is driving the spending of councils ever upwards. Those are common factors across England and Scotland and, indeed, across much of the world. Many of those factors would apply in Ireland or Australia, for example, particularly around housing.

When we look at workforce, the challenges of getting the right people into place are common factors, but that comes across a bit more strongly in Scotland. There is a real recruitment crisis for local government that has driven pay ever upwards, as have recent pay awards. Those are particularly Scottish factors.

What came through in our survey that is very different in Scotland is that 97 per cent of respondents mentioned Government ring fencing and the Government telling them what they have to spend their money on. As you will have heard from other witnesses, the big, emblematic thing is that people are really worried about teacher numbers and being told, “You’ve got to spend this money on maintaining teacher numbers, whether you feel you need to or not”. Almost all of the people who responded to our surveys—97 per cent—identified ring fencing as a big driver of financial pressure. That is different in Scotland; we do not see it in other places.

There are some differences in the English context that are not present in Scotland that have been crucial in some councils effectively going bust. We do not see Scottish councils carrying the same level of risk in commercial investments that some English councils do. For example, Woking Borough Council, which, for those who do not know it, is a relatively small council in Surrey, effectively has a £2 billion deficit because of commercial investments that it has made. That is a significant level of debt that the council has failed to service. There is a similar story in Thurrock Council. Those issues are different and they do not apply in the Scottish context.

There has been more consistency of audit in Scotland, which is also different. However, many of the key factors are sitting there. For example, one of the big factors for Birmingham City Council was equal pay claims and it is still unclear quite how that will pan out, but we have also seen that impacting Scottish councils.

There are differences, but a lot of the underlying factors around demand and—[Inaudible.]—are common to Scotland and England. They have driven a dozen or so English councils over the edge financially. They have not yet done that in Scotland, but I do not think that we should be complacent. The fact that Scottish councils do not carry the same commercial lending risk, for example, does not mean that some of those other factors are not putting real pressure on Scottish local government finance.

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

I want to continue on the differences between Scotland and England. I will start with Jonathan Carr-West, then Abdool Kara can come in. The lack of a general power of competence for Scottish councils is often cited as a weakness, and we have had a number of councillors in the room saying that giving councils in Scotland such a power would be a helpful next step with regard to raising revenue.

However, the LGIU has stated that the current position might be a reason why Scottish local

authorities are not exposed to commercial risk. I am interested to hear—from you initially, Jonathan—what the benefits are in having a general power of competence, and whether they outweigh the risks.

**Dr Carr-West:** It is a really interesting question. It is certainly true that Scottish councils would not be able to borrow in the same way as English councils, because they do not have that power. However, what is more important is the fact that the English councils were all in a policy environment that pushed them very much in that direction. Post-2010, we saw the consistent application of Government policy that said that councils need to be more entrepreneurial, they need to be inserted into the economy, they need to be incentivised to grow economies, and they should receive less.

In England, the council grant from central Government has reduced by around 40 per cent. There was, therefore, a definite direction of policy travel that said that councils should be more reliant on their own resources, while at the same time they had a power of competence that enabled them to act on that. That has led some councils into very risky situations, although it is worth saying that many councils that carry significant commercial debt have not gone bust.

On the issue of the power of competence, the point is that there is an intersection between the powers that councils have and the political and policy environment into which they are inserted. In a scenario in which a council is told that it has to make its money work harder for it, the power of general competence is the mechanism that it will use to make decisions. Those decisions should still, however, be properly risk assessed and scrutinised and there have been failings of governance in that regard. No one sticks up for local government more than I do, but one cannot look at some of the councils that have issued section 114 notices and say, “Hey, no problem there—it is all bad luck.” There have been failings and poor decision making.

The power of competence is one of the things that enabled those decisions to be made. Nevertheless, if one is arguing for that power, as we would, one has to look beyond it, as such a power needs to operate in an environment in which there is proper scrutiny, accountability and challenge. It is not a licence to make bad decisions.

**The Convener:** Does Abdool Kara want to come in on that?

**Abdool Kara:** Yes, I am happy to come in. The committee might have some further specific questions on commercial investment, but I want to

underline some of the points that Jonathan Carr-West made.

There was an exhortation to the sector to become more entrepreneurial, plus the financial pinch, so authorities that did not want to cut services or other forms of provision were looking to generate other forms of income and one of the ways in which they could do that was through commercial investment and trading. Almost all authorities in the UK now have trading companies. A minority of those have got into financial difficulty. In particular, there have been issues with one or two housing companies.

Broadly speaking, however, where a council has set up a company to collect commercial waste alongside domestic waste, most of those initiatives have worked, although they have not necessarily generated a huge amount of money. The problems have come about where massive amounts of commercial investment have gone in where there was not enough due diligence, or not enough scrutiny and challenge—as Jonathan said—in advance.

If we look at what the Treasury has done on public works loans and so on, it has generally been done after the fact, rather than there being checks and balances in advance of loans coming out of the Treasury—of course, those loans were cheaper than loans on the market—for authorities such as Woking and Thurrock to use for commercial investment. Jonathan Carr-West mentioned those two examples, but there are many others out there. They have either issued section 114 notices, or they are in significant amounts of debt and are in danger of issuing such notices.

Indeed, because external audit reporting has been delayed as a result of the demise of the external audit market in England, we have not had some of that data in the public domain for three, four or five years. That means that auditors have not been able to gather the data in order to express an opinion on whether those investments were justified.

We saw a lot of mistakes being made, and then a tightening up of, for example, prudential borrowing rules, with authorities being required to have an investment strategy that is agreed at full council, extra checks and balances on Public Works Loan Board loans and so on. It has been a case of trying to shut the stable door after the horse has bolted.

The other thing that we saw in our commercial investment study was a lot of herd behaviour. Authorities would see their next-door neighbour or an authority down the road borrowing to invest in office buildings or that sort of thing, and the leader or chief executive of the authority would say, “We

should be doing that, because it looks like a good idea.” There was an element of chasing each other and of herd behaviour, without due diligence. In that atmosphere, it is no surprise that mistakes were made.

**The Convener:** That is very interesting. I want to come back on one point. I do not know who wants to answer this one; perhaps Jonathan Carr-West can start, because he mentioned the subject.

Jonathan, you said that the power of general competence should be properly scrutinised. If we were to move to giving councils in Scotland that power, who do you think should pick up that role?

**Dr Carr-West:** We need effective scrutiny within councils; that is one of the many things that elected members are there to do. It is very challenging if one tries to say, “Look, we’re going to scrutinise all this from the centre, and build complex mechanisms to ensure that councils are doing the right thing.” That is a sure recipe for crushing innovation and interesting practice.

However, we need to ensure that councils have the ability to undertake such work—that councillors have the right training, and councils have the right guidance—so that scrutiny is working within the local authority. That is where we have occasionally missed the mark in England.

Central Government got rid of the Audit Commission, and it has now set up the office for local government, but that has meant that there has been a constant moving of the deckchairs in terms of centralised accountability methods. What is important is that councils are accountable downwards, to the communities that vote for them, and that is the job of elected members. Do they always do that job as well as they should? No, they do not, but we should therefore support them to do it better, rather than trying to create cumbersome central Government monitoring processes.

**The Convener:** Abdool, do you have anything to add?

**Abdool Kara:** I agree with Jonathan that we should—at least in the first instance—assume competence unless an authority has demonstrated a lack of competence, in which case we might want some sort of intervention or control mechanism. That would be through the statutory officers. I am not entirely certain if the same provisions exist in Scotland that are in place in England, where councils have a monitoring officer, a section 151 financial officer and a head of paid service.

One would expect that, with all the required protections in place—for those three individuals to be confident in their professions and able to speak truth to power on whether investment proposition

X is a good idea, coupled with scrutiny and an effective audit and risk committee, as well as an external audit function—that would, alongside a competent investment strategy and so on, suggest that, in nine out of 10 cases, an authority is likely to be making good decisions.

However, what has happened in England has demonstrated that the system also needs some controls at a central level that can keep oversight of how the system is working and certainly spot issues earlier than has happened in England. In England, we started to see issues arising with commercial investment and trading, for example, several years before the Government stepped in and started to tighten up the controls. We need early warning systems and so on.

However, I agree with Jonathan Carr-West that the place to start is the establishment of competency and professional expectations in the authority.

10:45

**The Convener:** Jonathan Carr-West, you have spoken previously about

“an increased basket of different local revenue-raising options”.

It would be interesting to hear what you mean by that, what lessons we could learn from other countries and how such a basket of measures could work in a Scottish context.

**Dr Carr-West:** It is important that we look at what is done successfully in other places. In the first part of the conversation, we talked a lot about examples in England in which local authorities perhaps made the wrong decisions on investment. We should not allow that to distract us from the fact that there are systemic challenges in local government finance in England. The previous UK Government was very quick to point the finger at councils that had failed financially and to say that they had made bad decisions and that they are bad councils. However, in a broken system, inevitably, the places that make the worst decisions fall over first. We therefore need to look much more broadly at both the revenue side of the account and how we reduce the demands on councils.

Working with Northumbria University, we have done deep dives into how local government finance systems work in other countries including Germany, Italy and Japan, and we have identified some common features of successful systems. You are right to say that one of those is having a broader range of revenue sources. Councils in Scotland are reliant on a combination of council tax and central Government funding. In other places, there is a broader range of local taxation, such as local sales taxes and hotel taxes. We

have made some progress in Scotland towards the application of a visitor levy, and we are looking at a potential cruise ship levy.

Some other jurisdictions set aside shares of national taxation. That is how they do it in Germany, I believe. You can say that, as local government delivers X per cent of public services an appropriate percentage of national taxation is vired from central Government to local government.

You can do a whole range of things to build up revenue sources. You could look at municipal bonds, for example. Local sales taxes, municipal bonds, green taxes and visitor levies are all commonplace in comparable jurisdictions—in crazy places such as the US, France, Germany and Spain. In this country, we treat them as radical blue-sky ideas, but those measures are normal around the world.

Some measures are complex. For example, introducing municipal bonds would be a big project. However, councils could easily be allowed to implement other measures, such as applying local taxes to bins—rubbish and waste—and be given the ability to set planning fees differently. We could open up to local government a whole range of small but cumulatively impactful revenue streams.

**The Convener:** Abdool Kara, do you have any inspiration on what could be in the basket of measures?

**Abdool Kara:** I do not know about inspiration, but Jonathan Carr-West has triggered a couple of thoughts.

First, as you know, the NAO does not comment on policy. However, it is true to say that all funding mechanisms for local government are a balance between what is raised locally and what is either shared out nationally, through grant, or competed for nationally, through tournament funding—which is usually more on the capital side, although it is sometimes on the revenue side. Those are policy choices for any parliamentary system to make for itself.

In England, there has been a clear shift in funding from central provision to more local provision—largely, but not wholly, through the adult social care precept. It is definitely true that England is an outlier in funding adult social care through property taxes. That is a real anomaly and, in our view, does not make a huge amount of sense.

It is also true that, the more that funding is uncertain, short term and competed for, the more the situation militates against authorities, or the system more broadly, achieving value for money.

Secondly, I come to Jonathan Carr-West's point about demand pressures. A system can be sustainable only if you look at both sides of the ledger, as it were: the money that comes in and what it needs to be spent on. Certainly, in England, we see broken systems.

Three good examples of that are special educational needs, homelessness and adult social care. Another example, but to a lesser extent, is children's social care. The greatest drivers of demand and cost are, in themselves, broken systems. Unless those systems are revised and improved in order to better prevent and manage demand, it is very difficult for the spending side of the ledger to keep up with the demand that comes through the door. That is the kind of hand-to-mouth existence that many local authorities in England are living.

**The Convener:** I will dig into that a little, while being mindful not to get too much into the weeds and the detail. Both of you have talked about reducing demand, and Abdool Kara identified three particular issues in England. Where should we start in reducing demand? It is difficult. How do we begin to do that? Which aspect should we start with?

**Abdool Kara:** You have to break into those systems in some way. Homelessness is a good example. In England, arguably, we have fewer homes than we need—certainly, several million fewer by population than comparable authorities in Organisation for Economic Co-operation and Development countries. Instead, we spend a huge amount of money on temporary accommodation and housing benefit. Standing outside that system, you would think that that did not make a huge amount of sense. Investing more in housing generally and social housing in particular would help to break into that system. However, I do not suggest that that is at all easy. It is not. It will be very difficult and will require additional investment.

Another example is special educational needs. A new set of opportunities and entitlements for people was introduced—in 2014, I think. The then UK Government woefully underestimated the amount of demand that would come through that system. Essentially, that close to bankrupted a number of authorities in England.

Jonathan Carr-West said that around a dozen section 114 notices have been issued. If the special educational needs deficits that sat on local authority books had not been given a special exemption, many more authorities in the UK would have issued such notices.

The previous UK Government did not understand that increased demand, particularly post-pandemic, and did not have a solution to that

financing problem. The new UK Government is grappling with and getting its head around that.

Those are both broken systems. Adult social care is another example. Aspects of the Care Act 2014 have not been implemented. I am not saying that those were the right provisions, but it is a well-known story that several UK Governments, of different parties and over many years, have failed to adequately grasp the social care nettle.

There is a negative relationship between health and social care. A lack of social care creates costs for health, and a lack of well-managed health creates costs for social care. That system has to be broken into and reset in some way. Many options are on the table, having been put there by many commissions over the years. At some point, Government has to grasp that nettle.

There are no easy options, but those are huge problems. If any one of them were solved—adult social care in particular—that would provide the breathing room to start to solve the others.

**The Convener:** Thanks very much for that. Jonathan Carr-West, do you have anything to add on how we break into the system and reduce demand?

**Dr Carr-West:** That is the billion-dollar question—or the £580 million question.

On Abdool Kara's point about exemptions for children's services deficits, I add that those expire in March 2026. The UK Government has not yet confirmed whether they will be renewed within the next financial year, so we could conceivably see a whole raft of section 114 notices being issued in December. Abdool is right. The point is that we need to take a whole-system approach. We need to consider all those questions, whether they be about a wider range of revenue sources, funding reform or demand management. That is really hard.

However, the only way to break into the system is to examine it on a place basis. Trying to manage a whole system across a whole country—even a relatively small one—is really challenging. We need to look at things on a place-based level, so that we can start to join up services and make the shift. We cannot spend our way out of the big demographic challenges such as that in adult social care. Instead, we need to move to a system that is preventative, helps people to live independently for longer, enables them to be in their own homes and enables communities to support each other. It cannot just be delivered by central or local government. That means that we need to operate at the level of place so that we can start to join things up.

We did a piece of work on adult social care for the UK Parliament 12 years ago. In our research

on that, people kept talking about the £20 grab rail. If local authorities go round putting grab rails in the homes of all the older people in the community, those will cost them 20 quid a pop. That is not a huge amount of money, but the point is that we can be accurate about predicting how many falls or hospital admissions, and the accompanying costs, that that money will save.

The challenge, which remains true to this day, is all about local authority spend and NHS savings. For all the various convoluted changes that we have made to health governance—for example, we now have integrated care boards in England, and you have integration joint boards in Scotland—we have still never solved the basic problem of making money flow around the system so that people can invest to save or put money into prevention. We have pilot purgatory: we have all these great pilots going on, but we never systematise the learning from them. We have to start at the level of places, because that is the only scale at which we can do that joined-up part of the work.

**The Convener:** Thank you very much for that. I will now bring in Emma Roddick, who has a couple of questions.

**Emma Roddick:** How far in advance of the issuing of section 114 notices down south was there concern that that point might be reached? What were the warning signs that could have been spotted?

**Abdool Kara:** I would say that it varied in each case. There was general concern in the sector when we started to see an increase in borrowing for commercial investment. It should be said, though, that not all the section 114 notices concerned commercial investment. A couple were for poor allocations of budget, by which I mean budget spending that was not allowed within the rules. However, the majority of the notices that have been issued concerned debt caused by commercial investment.

There were definitely rumours and concerns in the sector that, at some point, an authority would get into trouble. That possibility was spotted several years in advance of any individual authority issuing a section 114 notice. The first one to be issued became a cause célèbre in the sector, given that such a notice had not been issued since, I think, 2001. After that, we went for something like 15 years without one, so it was a big thing for an authority to do. Then, once one notice had been issued, several others were issued around the country.

In local authority areas where section 114 notices were not issued but where the UK Government had concerns because of soft intelligence that there might be an issue, the

Government sent in best value investigators and commissioners to help the authority to turn itself around, either to prevent the issuing of such a notice or to ensure that action was taken swiftly once a notice that looked as though it was about to be issued was issued.

Were there early warning signals? Yes, there were. Could there have been more? We think so. I have already mentioned the failure of external audit in England. There has been a real drop-off in the capacity to provide external assurance by the due date each year. Indeed, some authorities have not had an external auditor annual report for five years now. There has certainly been a drop-off in the number of public interest reports that external auditors were providing. Early warning signals—whether they were to the authority itself, to the public, to the Government department or to Parliament—were sometimes non-existent.

11:00

**Emma Roddick:** You have spoken about warning signs being evident years in advance. Rumours and low-level concerns about financial decisions must exist pretty much all the time. When should councils begin to worry and take action? Does the response need to be more specific and geared towards the current example, rather than just having generalised worry about specific practices?

**Abdool Kara:** We are largely past the point where external commercial investment will be the driver of section 114 notices. There may be two or three still out there, but there are not many. They have largely been surfaced. Now, we are more in a regime where demand pressures on services—which I mentioned in an earlier response—cannot be managed and are far beyond the annual budget that is available to authorities. That is where there is a risk of a section 114 notice being issued. Authorities in those positions know well their financial predicaments, and they are predicting them. In-year budget reports are predicting overspends at the end of the year, and authorities are running down reserves over several years to a point at which they can no longer do that.

Intelligence is available to the Government department in England so that it can step in and offer help. The Local Government Association and the Chartered Institute of Public Finance and Accountancy have carried out financial reviews of authorities that are looking for support, to see whether there is anything new and innovative that they can do. The UK Government has provided exceptional financial support to several English authorities. However, allowing authorities to borrow capital to fund revenue services is poor

accounting practice. That is a road to ruin if it continues.

If we look ahead, most authorities that are in financial dire straits know that, and most of them are doing everything that they possibly can to head that off, but some of them will not be able to. That information is largely in the public domain, through one means or another.

**Emma Roddick:** On notices and the lead-up to them being issued, is that likely to lead to change to accounting guidance practices or legislation?

**Abdool Kara:** I am not close enough to that but, having gone through a couple of years of testing some accounting practices as we seek to recover the external audit market and assessing what needs to happen to simplify things in order to catch up on the backlog, I am not expecting significant accounting practice changes to be made in England through CIPFA LASAAC—a partnership between CIPFA and the Local Authority (Scotland) Accounts Advisory Committee—or other boards.

**Emma Roddick:** Are lessons being learned or looked at here, in response?

**Abdool Kara:** “Here” being Scotland?

**Emma Roddick:** Yes.

**Abdool Kara:** I do not know.

**Dr Carr-West:** There is a lot to discuss here. Without wishing to be flippant, if you are asking when you should start worrying about this, the answer is yesterday—or last year, or the year before. Councils are worrying about it. Councils in Scotland, as in England, are crying out and saying that the system is not sustainable and that they are heading for certain situations.

There have been rumours about individual councils but, in relation to the overall system, we have done surveys since 2012, and the proportion of people who are confident in their councils’ financial sustainability has been dropping year on year. The proportion of councils that are dipping into reserves has been increasing year after year. If we take a sector-wide systems approach, it is clear that all the warning signs that the system is broken have been there across the board.

With regard to what happens in individual authorities, one of the challenges that we have seen in England—there are lessons for Scotland here—is that the section 114 process is binary. When a section 151 officer, who is usually the head finance officer, comes to believe that the council will not be able to meet its obligations based on the income that it currently envisages, they have a legal duty to issue a section 114 notice, at which point all hell breaks loose. It is a yes/no approach. The section 151 officer is very

reluctant to issue a notice, but they have to do so. In that sense, even though there may be warning signs and rumours, the actual process is very sudden.

That would not apply in Scotland, because you do not have the section 114 process here. How would all that work in Scotland? We do not really know, because it has not happened. We have been doing some work with CIPFA, working with chief financial officers across Scotland, and we have a report coming out in October that tries to flesh that out a bit.

What we need, and what is being talked about in England, is what I heard a minister yesterday refer to as recovery and reform partnerships, by which we can have a more honest dialogue between councils and central Government about the support that they might need ahead of a section 114 process. The challenge that we have had in England has been that councils have repeatedly said that they are okay but then said that they are not okay.

What we need, and what Government in Scotland could learn from in order to get ahead of the game, is a process by which we enable a frank conversation that puts in support ahead of a section 114 notice—or the Scottish equivalent—being issued. That is important, and it is something that we have failed to do in England in the past six years since Northamptonshire issued a section 114 notice.

The new UK Government is talking about introducing such a process in England. I think that Scotland could very easily pick that up and be a pathfinder in that regard.

**The Convener:** Thank you. That is noted—we will take on board the need for those frank conversations.

I bring in Willie Coffey.

**Willie Coffey:** Good morning to you both. I want to continue briefly with the discussion that Emma Roddick led, using the example of the Welsh councils. As I understand it, the Welsh councils are saying that they are less likely to end up in a bankrupt situation than their English council counterparts, as a result of their close relationship with central Government. As we do not have our Welsh colleagues in front of us, perhaps you can offer an explanation. What do they mean by that? Do councils there have a tighter financial relationship with the Welsh Parliament?

**Dr Carr-West:** I do not feel able to comment on that—I do not really understand what they meant by that, I am afraid.

**The Convener:** Abdool, do you have anything to add?

**Abdool Kara:** I do not know about the specifics of that example, but from the days when I covered the Welsh area as part of my work, I think that there are two factors. One is that there are fewer local authorities in Wales—there are 22, or something along those lines—so it is far easier for the Welsh Parliament to have a picture of what is happening locally.

Secondly, because Wales is a much smaller country and the chains of politics are smaller, the connections between the Parliament and the leaders of councils and so on are fairly short, and I would therefore expect that, in any case, local intelligence is better in Wales. Whether that is what those councils were pointing out with that particular comment, I have no idea, but that has generally been the case in Wales.

**Willie Coffey:** One councillor in particular, who is head of finance at Cardiff Council, is reported as saying that, with regard to councils in Wales,

“higher central funding from the Welsh Government has helped them stay afloat when some English councils are collapsing.”

That is quite a statement to make. It is clear that that councillor thinks that, in Wales, there is a better relationship with central Government that has enabled Welsh councils to avoid the disasters that some of the English councils have encountered. Can you add anything to what you have said, Abdool?

**Abdool Kara:** There is the relationship issue, but you are right to highlight that, in terms of funding, there have been fewer cuts, and those cuts have bitten less deeply, in local authorities in Wales than has been the case for councils in England. In addition, in Wales, grant funding is a greater feature of the system than it is in England, where—as I said earlier—there is a move to raising social care funding through a social care precept added on to council tax. That has not been a feature in Wales in the same way. The more local government is funded by grant from central Government—in this case, the Welsh Government—the more it is in the hands of that Government as to whether or not it wishes to cut that funding as much.

However, I have not done a compare-and-contrast exercise between England and Wales with regard to the levels of cuts, so I cannot give you any figures on that, I am afraid.

**Willie Coffey:** We can perhaps follow up on that if we get an opportunity later.

I come back to the audit function. You mentioned a few times that the Audit Commission in England was disbanded in 2015. How much may that decision have led to the problems that the English councils in particular have faced? We know that audit has not disappeared—the audit

function is prevalent at every level of local government. Why, therefore, when the Audit Commission disappeared in 2015, did that lead to the circumstances that we have discussed unfolding in England? Alternatively, would you say that it had nothing to do with that?

**Abdool Kara:** I guess that I should declare an interest, as I was previously employed by the Audit Commission; I have a great love for that institution and the time that I spent there. There definitely is a connection between the two events, in a couple of ways.

When the Audit Commission was disbanded, along with the district audit service that existed within the commission, in England we moved to a market approach to providing external audit. The tendering process for external audit was such that there was a significant amount of competition, and prices were driven very low through that first tender. That would have been around 2014 or 2015.

It turns out, in retrospect and with hindsight, that the fees were pushed so low through that tender process that a number of audit providers were not able to deliver the service for which they had tendered. It would be true, therefore, to say that, to some extent, external audit, while it did not so much disappear, was less comprehensive than it was prior to that tendering exercise. Of course, prior to that, the district audit function was funded through the Audit Commission, which in turn charged fees to local authorities.

We have definitely seen the demise of external audit in England. The number of audits that are not completed and certified by the due date each year went up from virtually zero, or at least only a handful, in 2009 and 2010 to upwards of many hundreds by the statutory deadline last year. Hence, in England, we have had to bring in new provisions around backstop dates, so this year, a large number of audits will not be able to be completed and work on them will cease. There has been a real demise of that external audit function, so that is one area in which the demise of the Audit Commission has had a direct effect.

The other function of the Audit Commission involved providing comparative data and good practice guides for local government, and that has also disappeared. It is difficult to say to what extent that was a feature of the system pre-2010 that kept local government healthy. I think that that function certainly played a part.

11:15

Authorities were interested in how they performed or spent money and how efficient they were compared with other similar authorities. These days, there is very little reporting along



those lines in the public domain. The Local Government Association has an online data function called, I think, LG Inform, which provides some analysis, but certainly not with the heft or impact of that of the Audit Commission.

**Willie Coffey:** That was a really thorough explanation, Abdool. While you were giving it, I was wondering why the internal audit function in Woking, which was mentioned in a previous example, did not wake up earlier to the prospect that it was about to go £2 billion into the red. What was happening there?

**Abdool Kara:** That is a really good question. During what we might call the austerity years, like most local authority back-office functions, internal audit functions were significantly cut—they were stripped to the bone. In the authority where I was chief executive, we entered into a shared internal audit function, which managed to just about preserve our work, although with some compromises. Like other corporate services, internal audit functions have been stripped in that way to try to protect front-line services and provision.

At least in some places, the value placed on internal audit and similar assurance mechanisms, which authorities should be relying on, was questionable. One of the findings of our governance report was that the data on audit and risk committees' performance was not great. They tend not to be the most effective committees that local authorities run. Very few have an independent external person sitting on them, or a chair with some kind of accountancy qualification. Audit and risk committees are not as strong as they should be, and authorities' internal and external audit functions are not as strong as they used to be.

**Willie Coffey:** Goodness. Thank you for that.

My final question is on general financial sustainability indicators, which I ask you both to comment on. In Scotland, our Improvement Service publishes those to guide us. Are the financial sustainability indicators, which, collectively, we all use, fit for purpose? Do we need to think differently about what financial sustainability should look like in the medium to long term? What measures should we introduce to get a better and more rounded picture of what we need to know?

**Dr Carr-West:** After you, Abdool.

**Abdool Kara:** Thanks, Jonathan. I do not know off the top of my head exactly which indicators you use. I am sure that they are probably quite similar to what, in England, CIPFA, the LGA or the department itself would use, such as the rate at which reserves are being run down, or the level and servicing of borrowing.

Linking to what Jonathan Carr-West said earlier, though, I would highlight the incentives. What are the incentives for an authority to admit that it is in trouble? Such an admission is seen as a failure that will invite intervention, which might present an ego problem for the leader and the chief executive. Instead, we should have systems and mindsets where people are prepared to signal early that they might be getting into difficulty and will then seek advice and guidance. Such incentives are generally in the wrong place. That is what happened in England, where, as Jonathan said, authorities have tended to claim that everything is fine—until the day that it is not, and receivers are brought in, or whatever.

**Dr Carr-West:** I totally agree with Abdool Kara about that. It goes back to the bigger question of the relationship between central Government and local government. It continues, in Scotland, as in England, as in Wales, to be something like a parent-child relationship, where local government is dependent on central Government. The incentives are never there to have a grown-up, honest conversation about what is working and what is not working because that is not how the relationship is set up; it is not a relationship of equals. We need to move it to being much more like that.

Are the indicators right? The question is not so much whether we have the right indicators; it is about what we are doing with them. Across all the indicators that we have, the Governments in Scotland and in London should be screaming red flags: the system is heading for disaster.

It is important to have the conversation about audit, and about what is working and what is not working, but we should not allow that to distract us from the basic facts. In Scotland, there is a budget gap estimated at £580 million. We have talked about people in Wales feeling a bit better off, but the Welsh Local Government Association says that authorities there have a £432 million budget gap. In England, the LGA talks about a £2 billion gap. Those are fundamental underlying realities. Yes, we can improve audit, systems and indicators, but we need to act on the core underlying structural realities. The reality is that, across the UK, local government does not have enough money to do the things that it is being asked to do. We either need to find different ways of funding it, or we need to ask it to do less, or we need to make a radical transformation to how we deliver services—or some combination of all three. We can have the best audit and scrutiny in the world, and we can get better at spotting what is going on, but we need to act on the core, basic facts.

**Willie Coffey:** I do not want to pick on poor old Woking, but were that council's financial stability

indicators not ringing alarm bells during the process of racking up a £2 billion pound deficit? Did it have any indicators that might have alerted it to that?

**Dr Carr-West:** The council knew what it borrowed, right? It also knew what it had coming in. Because the case of Woking has such a big number attached to it, it becomes emblematic. Indeed, I have used it in a slightly unfair, finger-pointing way. Woking is a bit of an outlier. On the issue that we are facing now, I would consider places such as Nottingham. The challenge that we have reached in England is whether we have got to a point where only a council that gets nothing wrong can survive financially. There is no such council. We cannot have a council that never makes any mistakes. We cannot have a perfectly run council. Woking is an extreme example, but, across England, there are authorities described as “well-run councils” that either have issued section 114 notices or are perilously close to doing so.

When we did our survey in England this year, we asked, “If nothing changes, are you going to issue a 114 notice over the next five years?” Not coincidentally, that is the lifetime of the Parliament. In response, 51 per cent of English councils have said that, if nothing changes in the local government funding system, they will be bust within five years. That takes us beyond a conversation about what a particular council has got wrong and forces us into a conversation about why we are not adequately funding local public services.

**Willie Coffey:** Thanks very much to both of you.

**Pam Gosal:** Good morning. Dr Carr-West, from the survey that you carried out with local authorities, you mentioned that the picture in Scotland is very bleak on local government finances. Could you suggest any possible next steps to improve the financial sustainability of councils in Scotland? How can potential financial risks be mitigated?

It would be great to hear from Abdool, too, about any experience that he has seen somewhere else.

**Dr Carr-West:** I would point to some key lessons that we draw from looking at places where things works better. Lesson 1 is that you need a clear constitutional definition of the role of local government, central Government, and who is doing what. The Verity house agreement sort of promised us that we might get some of that. We might talk later about Verity house and whether it has delivered.

We have already talked about lesson 2, which is that you need a broader basket of revenue-raising options, not just as one-off pots of funding but as a stepping stone to broader reform. Lesson 3 is that you need to embed subsidiarity—a bottom-up

approach. Lesson 4 is that you need an effective system of territorial equalisation—of redistribution between councils according to need.

Lesson 5 is that you need a set form—a standing body—in which local government and central government can have honest and helpful conversations, thus taking funding out of annual political horse-trading and into a set system. We sometimes call that “embedded autonomy”: councils have freedom of manoeuvre, fiscally, within a system that everyone understands and that has predictable outcomes.

It is easy to look at those other countries and say, “Well, they have constitutions that enable all those things.” However, you can do all of those within our rather odd, unwritten constitution. We are one of only seven countries in the world that do not have a written constitution. Those are all things that we could do in Scotland.

**Abdool Kara:** Jonathan Carr-West is spot on. I could not agree more with that set of principles, and I would love to see them applied in England as well.

The only principle that I would add involves thinking about what, in theory, council tax should pay for, versus what grant should pay for, versus what service users themselves should pay for. We have a very muddled system of thinking about those three forms of income. Of course, we can talk about other forms of income, such as a share of local income tax, stamp duty, VAT or whatever; however, for example, I do not think that anyone would disagree that if somebody goes for a swim at a leisure centre, they should pay to do so. There may be exceptions—for old-age pensioners, for example—but, generally speaking, if you use that kind of service, you should pay for it through a fee or a charge.

Similarly, if the Government wants an authority to do something specific, such as undertaking a new duty, that should be funded, probably through grant rather than through council tax, which most people associate with keeping the place going through things such as street cleansing and waste collection.

I do not know what the case is in Scotland but, in England, certainly, for most authorities, the planning fees, which are set by central Government, do not cover the cost of determining a planning application. The gap has to be covered by council tax, which means that council tax payers are subsidising those who want to develop. In principle, there is a conversation to be had about whether that is right.

I would therefore put that on the table alongside Jonathan’s five themes. I suggest that there should be an in-principle discussion about what

form of funding is right to fund what form of service delivery.

Of course, capital grants are a separate thing.

**Pam Gosal:** Can I just probe a bit more into that? Obviously, you have seen how councils in England work; in a past life, I worked with local authorities in England. Have you seen any good practice in relation to shared resources, such as software systems? My colleague Miles Briggs mentioned the sharing of bin services. I do not know whether local enterprise partnerships are still around, but they worked together—in the southeast and other areas—to look at where savings could be made and how development and services could be better delivered. Do you have any good practice examples of councils having saved money by sharing resources and working together?

**Abdool Kara:** In the 2010s, there was certainly a big movement around the sharing of services. The authority that I ran shared a number of services with our neighbour authorities. All of those were pretty successful and saved money. They did not save enough money to mean that I did not have to make cuts each year; however, they were a form of efficiency and effectiveness.

There is good practice in England but there are not good mechanisms for sharing it. We talked about the demise of the Audit Commission a couple of questions ago. That was one way in which good practice was shared. The Local Government Association in England does a little bit of sharing good practice. Some of the professional bodies, such as the Association of Directors of Adult Social Services, the Association of Directors of Children's Social Services and the Association of Directors of Environment, Economy, Planning and Transport—ADEPT—which also covers housing, share good practice at the professional level. However, the processes for sharing good practice in England are not systematic enough. I say that even though we have—I do not have the number off the top of my head—seven, eight or nine work centres that do some of the work to share good practice on, for example, early intervention or caring for older people.

11:30

LEPs were much less about efficiency and service delivery. They did very little of that work and were much more a mechanism for jointly agreeing investment and infrastructure priorities in a place. In any case, we have seen the demise of LEPs, which have been folded into combined authorities in England, where those exist.

**Pam Gosal:** Dr Carr-West mentioned that, in the survey that you carried out with local

authorities, councils highlighted workforce challenges. How can pay deals be managed more sustainably and strategically, given that employment costs form around 70 per cent of the employment budget?

**Dr Carr-West:** I should not be frivolous in this context, but I am tempted to ask whether they could be managed less sustainably and effectively.

You need early consultation. The challenge with pay deals is that they make a huge difference to local authority budgets but are yet another thing that local government feels is done to it rather than with it. The Verity house agreement set out clear principles for early consultation on all such matters and it is fair to say that local government across Scotland does not feel that that is being delivered.

That relates to my point about constitutional definitions and central-local communications. It all comes back to having a mature relationship between local and central Government in which such matters are discussed ahead of time and in which there is a connection between that discussion and the funding that follows it. Many people in local government point out that, although the Scottish Government says that it increased the funding settlement to local government by 6 per cent last year, once the pay deals that have already been agreed and some of the ring fencing is factored in, it is, in effect, a flat-cash settlement, which is not adequate to local government's current needs.

I was going to say that pay deals are just another symptom but I should say that they are a major symptom of how the relationship does not work properly—the discussion is happening too late and in the wrong place.

**Pam Gosal:** Abdool Kara, I will touch on pay in England. Last week, we had evidence that councillor pay can be a barrier in Scotland, especially to ethnic minorities, women and people who have a disability. That means that they cannot be councillors and that we, unfortunately, sometimes do not have representation from all backgrounds.

Is there anything in England that can help? Should councillor pay be agreed yearly, three yearly or five yearly? Are you able to give us an example that we can work from? I mean a good example, obviously.

**Abdool Kara:** There are few good examples. In fact, in 2014 or 2015—I am guessing the year but Jonathan Carr-West might remember it—we had the opposite. The secretary of state of the day decided to ban councillors from being able to access the local government pension scheme. That reduced the attractiveness of being a councillor in England.

We had a very successful model of virtual meetings of councils throughout the pandemic, but that was not allowed to continue post-pandemic. That has put more people off being a councillor, because it is much less convenient. We have had models of maternity cover and so on, which have not been broadly taken up. Jonathan Carr-West is much closer to the councillor side of things, but I would say that the mood music has generally not been positive for councillors over the past 10 to 15 years.

On the officer side of things, there is a pay issue. Officers in councils should be paid the commensurate rate for the job. However, even if that is the case, there is a massive workforce issue in England that is to do with having an ageing population, the attractiveness of local government and issues with certain professions. Planning is a good example of a field that has not been able to attract enough people into the profession to cover those who will be retiring in the next five years. There are massive workforce pressures alongside competing areas. For example, according to the long-term workforce plan that the NHS in England announced recently, the number of people who are expected to join the NHS over the next 10 years is at the thick end of half a million. Everyone is competing for workforce at the moment. That is the general challenge for public sector services. We do not yet know whether artificial intelligence or whatever else is around the corner will solve the problem.

**Mark Griffin:** Jonathan Carr-West, you touched on the Verity house agreement earlier and in your submission, and you talked about the surprise council tax freeze demonstrating a failure of the principles of trust and respect. Here in Scotland, there is a lot of enthusiasm, particularly in local government, for the Verity house agreement. Can it be saved, progressed or turned into something meaningful that can be rescued in the eyes of local government?

**Dr Carr-West:** That is a good question. Obviously, I do not speak for Scottish local government—it has the Convention of Scottish Local Authorities to do that for it. I thought that the Verity house agreement was really exciting. We have talked a lot about having a constitutional definition of the relationship between central and local government—I talked about it earlier. Given that we do not have a written constitution in this country, I thought that the Verity house agreement was a really good stab at a sub-constitutional memorandum of understanding between central Government and local government.

Therefore, like many people in Scottish local government—everyone in Scottish local government—I was really enthusiastic about the Verity house agreement when it was signed.

Indeed, I waved it around in England, saying, “Look at this—why aren’t we doing this?” However, the outcome with regard to some of the core principles of the agreement has been disappointing. For example, one principle was that there should be no surprises, and then we had a surprise council tax freeze. Early consultation was another principle, but, at the COSLA conference last week, the First Minister, when pressed to commit to not having a repeat of that situation, would only say, “Oh, we’ll engage earlier.” That early engagement did not happen.

Therefore, given what has happened with the council tax freeze and teacher numbers, and in relation to the principles of no surprises and operating in a way that is local by default, there is a feeling across Scottish local government that the Verity house agreement has been honoured more in the breach than in the observance.

I think that it can be rescued for two reasons. First, I think that people still think that it is better to have it than not to have it. In that way, even when the Scottish Government rides roughshod through it, at least we can point to it and say, “Hang on, guys. We had an agreement. You’re breaking an agreement.” That is better than not having it in the first place.

In addition—I am going out on a limb here to an extent, because this is my interpretation; I am not sure that I can back this up—my sense is that there is enough hope and residual good will around the Verity house agreement that it can be rescued, but, if that is to be the case, we need to see a very obvious demonstration of adherence to it from the Scottish Government. I have asked Scottish local government leaders, “Is the Verity house agreement dead?”, and they have said—I am paraphrasing—that it is not dead, but it is pretty poorly, and time is running out to revive it.

**Mark Griffin:** Another area of agreement between the Scottish Government and local government has been on the work to develop a fiscal framework. What is your understanding of the developments in that regard? Do you see that as something to be valued? Should we push for delivery of a fiscal framework?

**Dr Carr-West:** My answer to the last question is yes. I think that we should push for delivery of a fiscal framework. I am not involved in those negotiations, but from speaking to people who are, I think that there is a sense that progress is being made. Although that progress might be slower than we would have liked, we are moving forward.

I would love that fiscal framework to reflect the five principles that I talked about earlier. I think that we might get some of them. However, the framework is like the Verity house agreement in that it will be only as good as people’s delivery of

it. That is the case with a lot of the issues that we have talked about, such as scrutiny, audit and warning signals. The issue is not only about the system; it is about people's willingness and capacity to deliver on those things.

I remain optimistic about the fiscal framework. I think that it is a good idea, and I hope that it lives up to expectation, but I do not think that we should be complacent about it.

**Mark Griffin:** I have mentioned the Verity house agreement and the work towards a fiscal framework that is being done here in Scotland, but is there anything in the upcoming English devolution bill that we should look to emulate when it comes to the relationship between central Government and local government in Scotland?

**Abdool Kara:** I would like to make one point about the Verity house agreement. It points to a really interesting set of underlying incentives. Local government wants certainty, not only about its financing, but about how things will be done—for example, it wants to be consulted on changes—whereas central Government wants flexibility over everything all the time, so it is difficult to find an agreement that closes the gap between those two positions.

As far as the English devolution bill is concerned, the Government in England has very much nailed its colours to the mast: devolution is the direction in which it wants to see things going. We are seeing that in areas such as investment in infrastructure and capital much more than we are seeing it in relation to, for example, service delivery. The Government wants to have larger footprint areas in which to deliver strategic sub-national investment decisions, and it wants, in as many cases as possible, there to be a single person—the elected mayor—with whom it can get in a room and negotiate, in a way that is very complicated to do when large numbers of councillors are involved. That is one of the reasons why local enterprise partnerships were so difficult. For many years, I worked as part of the South East Local Enterprise Partnership in England, which had 50 councillors and all their chief executives and so on around the table. It is very hard to get business done in that environment.

In relation to whether, in practice, we will see something along the lines of the subsidiarity that Jonathan Carr-West has spoken about, whereby all things that can be done locally should be done locally, rather than being held nationally, I do not think that we will see that happen overnight. However, as those organisations mature—do not forget that several of the combined authorities and mayoral combined authorities in England are still very young, immature organisations—and if a level

of trust builds, I think that we will see progressive subsidiarity over time.

11:45

However, that approach is fraught with all sorts of dangers. For example, during the pandemic, in England, the Government of the day found it very difficult to be in a political discussion with mayors who had a very different opinion to the Government. That damaged relationships and slowed the direction of travel for a period of time. There are all sorts of pressures that might happen along the way, but if I were to take a 100-year view of this and ask whether we are on a journey towards greater subsidiarity, at least to mayoral combined authority level rather than to local authority level, I think that the answer is that we are.

**Dr Carr-West:** Having spoken to ministers recently, I think that we are expecting the white paper on the devolution bill in November. They are talking about that being a co-production with local government, which is great, although there is not much time to do real co-production between now and November. We will see what is in that.

It feels to me as though the devolution debate in England is developing very fast. The Government has asked for expressions of interest from upper-tier authorities by the end of September—next week—and is then planning to enter into a series of discussions around devolution deals to create new combined authorities and mayoral authority mayors. The UK Government's current position on devolution in England is for people to come forward with plans and see what happens. I think that a lot will depend on the quality of that. If the Government get plans that work for it, I think that we will see a fairly organic process. If it does not, I question whether we will get a more directed process further down the line, whereby the Government decides what works and start to impose it.

We have been following this really closely. I have been facilitating quite a lot of the devolution discussions, and I would say that it is a case of watching this space, because things are moving fast and I am not sure where they will end up. There is a lot of movement, a lot of action and a lot of uncertainty. That is not a criticism; it is just where we are. We have a Government that has been in place for 70 days. It is trying to move fast, but the price of moving fast is that the situation is mobile and uncertain. It is hard to draw lessons from that at this point.

**Mark Griffin:** Thank you. I had another question, but it has already been covered in previous responses.

**The Convener:** Okay, thank you. I will bring in Miles Briggs.

**Miles Briggs:** Good morning, and thanks for joining us. I have a couple of questions. The first relates to restricted capital resources and how you believe councils should prioritise their capital spending. Do you have any examples of good practice and how they are engaging with communities around that?

**Dr Carr-West:** I am not an expert on capital allocation and capital spending. The overall point that I would make is that if you look at the value of assets held by local government and at the capital funding, and the disconnect between those things, it is becoming clear, as other submissions have stated, that there will be a big challenge around maintaining the infrastructure that we have, let alone investing the money that we need to invest in new infrastructure.

We can write to the committee with examples of best practice around consultation, but my sense is that local government has been better at consultation on revenue spending than on capital. Abdool Kara can speak to accounting practice far more authoritatively than I can—anyone can speak to accounting practice more authoritatively than I can—but I would say that, although it is right that capital and revenue are kept apart, I sometimes wonder whether they sit too much in different strategic boxes and whether we think enough about how they interact.

That is not to say that we should mix up those budgets or those funding streams. However, a strategic whole-place development does require thought about capital, investment, infrastructure, public service reform and community engagement, all in one coherent whole. That is much easier said than done, and there is no area that I would point to and say, “Look, these people have got it right,” because everyone is on a journey around that.

**Abdool Kara:** Jonathan Carr-West is right. The essential trade-off with capital is around whether you are doing new things or maintaining existing things. Our work in England has shown that at both central, and to some extent, local government level, maintenance has been severely underinvested in over the years.

You have only to look at the work that we did on reinforced autoclaved aerated concrete last year, coincidentally on both schools and hospitals. Two reports came out within a fairly short space of time that covered RAAC in both. The RAAC issue has long been known about but has not been dealt with; we are now at a cliff edge where massive investment is needed in order to either remedy or replace schools and hospitals. That has been true for roads, bridges and all sorts of things in

England, and it is probably the case in Scotland, too.

There is a trade-off that happens all the time. I happen to sit on the board of a housing association and we have exactly that trade-off between how much we are investing in remediating existing stock to the decent homes standard, or for net zero, or for what is called Awaab’s law, which is around damp, mould and condensation, versus how much we are able to invest in new stock and new provision. There is always that tension with any investment.

On funding, you said that there were limited funding pots. Indeed there are, in relation to grant, but I see opportunities for more funding, whether through section 106 and developer contributions, changes to the way in which land value uplift from planning decisions is captured, or things such as venture capital and so on. There are things to explore with regard to additional capital funding.

You have talked about community involvement. When it comes to regeneration and redevelopment, there is a rich tradition in England—commercial investment aside—of consulting people on what they want their town centre to look like, particularly in these days of town centres with many boarded-up shops and so on. What does the vision of the town centre or the footprint of an estate that might be demolished, with something new put up, look like? There are lots of really good examples out there that you could follow up.

**Miles Briggs:** You touched on RAAC. I wanted to raise that issue with you both in relation to future challenges. We have already had a pretty bleak conversation about the pressures that local government faces, but where do you think councils are in assessing the situation in relation to RAAC? On Friday, I met people in West Lothian who are affected by RAAC, and I do not think that the council necessarily has a figure for the situation. There is now mixed tenure in many of the developments that we are referring to. Do you have any idea what the exposure to risk now looks like for councils in relation to the housing stock in England, and of any figures that exist for Scotland?

**Abdool Kara:** We have not looked at that issue in relation to housing, where RAAC is much less of an issue than in schools, because authorities that have housing stock, and housing associations to which it has been transferred, have long had programmes for surveying and investigating issues with their properties, and many buildings have been demolished and replaced over the years.

Although RAAC is a substantive issue in housing, it is less substantive an issue than it is in

schools, where the extent of RAAC is still not very well known because the surveying has been done on a sampling basis rather than there having been a comprehensive survey of 22,000 schools and all the buildings associated with them. We are in a healthier position in relation to local government housing.

**Miles Briggs:** Jonathan, do you want to add anything to that?

**Dr Carr-West:** I agree. My sense is that local authorities have really good data about their housing stock and that of housing associations. Where there are challenges, they are far more likely to relate to the issues flagged up earlier, such as damp or mould, than to RAAC. Without wishing to seem competitive, I think that local authorities have a pretty good handle on housing.

**Miles Briggs:** Thank you for that.

Evidence from the Scottish household survey shows that public satisfaction with local government services has reduced in recent years. Is that experience mirrored in England? What would have to change in order to reverse that trend? We have touched on the idea of people being more engaged in decision making. Local government is facing a number of pressures and satisfaction seems to be declining.

**Abdool Kara:** That is definitely true in England. The Local Government Association produces an annual survey that shows a downward trajectory and dropping levels of satisfaction.

A couple of things may have caused that. First, people have seen libraries and day centres closing, or having shorter opening hours, and streets not being cleaned so often. That has definitely been a factor.

A bigger issue, at least in England, is that those who pay council tax have seen that go up by an enormous amount, largely because of the social care precept, but are simultaneously seeing worse or less delivery of services than previously.

That is happening because recipients of social care, although expensive, are a relatively minor part of the population. Only 4 or 5 per cent of households are in receipt of significant delivery of social care, which means that, although 100 per cent of households that pay council tax are seeing that tax going up, only a relatively small number of people see additional service delivery—which is still not at the level that they would wish for. That is a mismatch, so it is no wonder that there is a satisfaction issue. It is not an engagement issue, although it would be useful if people understood that that is what is happening. There is good practice from some authorities, which try to share the bigger picture with local people, but if people

think, “I’m paying more and getting less,” it is no wonder that they are less satisfied.

**Dr Carr-West:** We did work with Ipsos MORI ahead of the local elections in England in May. The figures that came from that show that only one in four people trusts the UK Government to act in the best interests of their local area, but that 40 per cent of people trust local government to act in the interests of their community. Is that glass half full or half empty?

People think that the local council is the institution that can make the biggest difference to quality of life in their area. About half think that local services have got worse, but that figure rises quite steeply when we look at older people: of those aged between 55 and 75, 61 per cent think that services in their local area have declined in the past five years. We know that that is part of an overall picture of declining trust in public institutions.

You can draw your own conclusions, but I have no reason to think that the numbers would not be very similar in Scotland. They show that, if we are to rebuild trust in politics, we must start from the local because, although it is not great, that is where trust is highest and it is where people think that the biggest difference can be made to their lives. That is a problem, but it is also an indication that local government must be part of the solution.

12:00

**Miles Briggs:** You touched on social care pressures, which is an area that I am interested in pursuing, especially what that looks like north and south of the border.

We have seen pretty major reforms in local government over the past decade to try to address that pressure—for example, the integration of health and social care in Scotland. Currently, the Scottish Government is taking forward the National Care Service (Scotland) Bill.

When you speak to councillors and council officials, you hear that the pressure is not easing but growing. For most councils, including my own here in Edinburgh, half of that budget is for adult social care, from day 1, and the pressure is consistently growing and outstripping demand.

How optimistic are you that the situation will improve, and not just create something that councils cannot resolve? Some of the policy changes that we have seen have not, in fact, helped to deliver any real reform that has necessarily improved the situation.

**Dr Carr-West:** I refer you back to my earlier answer about place-based, joined-up preventative approaches.

I also note that we did a piece of work with the University of Birmingham, which I can forward to the committee, on the Scottish Government's proposals for a national care service and some of the challenges in that.

The only cautionary note that I would add is that we talk a lot—quite rightly—about the integration of health and social care. However, if the core question and challenge is how we help people to live happily, healthily and independently for longer, then it is about integrating social care with not only health but housing, leisure services, community engagement and planning—with a range of things that are delivered by local government.

I sometimes worry that our focus on health and social care integration is, frankly, too driven by questions around delayed discharge. Although that really matters, we should, in fact, be thinking about how we stop people going into hospital in the first place. My worry is that we focus so much on health and social care integration that we lose sight of all the other things that need to be integrated in order to keep people living at home independently and healthily for as long as possible.

**Abdool Kara:** That is exactly right, Jonathan.

It is worth unpicking the demand question a little bit. Obviously, we have an ageing population, so there is demand from more people coming into those older age categories. However, the biggest driver of increasing costs in social care—in England, at any rate—is working-age provision.

We are seeing large numbers—at least compared with the past—of young people who perhaps survived difficult childbirth or illness at a young age and have now made it to adulthood, when they perhaps would not have made it to adulthood 20 or 30 years ago, and who have large levels of need. Some may be able to be supported to have a working life, but many cannot be. That is translating into care packages of £200,000 or £250,000 a year, which are significant amounts of money.

On top of that, we have seen a massive increase in children's needs and children's social care—during and following the pandemic in particular—around mental health issues, special educational needs, and so on.

In England, for authorities that provide social care, an average of about 65 to 70 per cent of their revenue budget is spent on social care; however, in some cases, it is 80 per cent and above of their revenue budget. It is therefore a massive issue.

I absolutely agree with Jonathan Carr-West. Is the answer shovelling more money in, or simply closing the door? Probably neither of those is

acceptable. We therefore need to have a different way of addressing those issues, which has to be a rounded, system-level approach that keeps people healthy as much as possible in the first place and helps them live the best life that they possibly can, including working, where that is possible.

At the moment, we have a crisis management system: we have queues and gateways that keep people from the door as long as possible; then, when they get through, we provide them with the least possible service that the state can get away with, instead of taking a holistic view—which, if health, social care, housing, leisure, work, skills support and so on were joined up, would produce a different set of outcomes.

**Miles Briggs:** There is a lot to think about there. Thank you.

**The Convener:** Yes. There is certainly a lot to think about.

That brings us to the end of our questions. I thank the witnesses for what has been an interesting and insightful discussion. It has been great to get some of your thoughts on what we can do better in Scotland and how we can learn from what is happening in England.

We previously agreed to take our next two items in private.

12:05

*Meeting continued in private until 12:42.*



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