OFFICIAL REPORT
AITHISG OIFIGEIL

Local Government, Housing and Planning Committee

Tuesday 4 February 2025

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 4 February 2025

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LOCAL GOVERNMENT, HOUSING AND PLANNING COMMITTEE
4th Meeting 2025, Session 6

CONVENER

*Ariane Burgess (Highlands and Islands) (Green)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

Meghan Gallacher (Central Scotland) (Con)
*Mark Griffin (Central Scotland) (Lab)
*Fulton MacGregor (Coatbridge and Chryston) (SNP)
*Emma Roddick (Highlands and Islands) (SNP)
*Alexander Stewart (Mid Scotland and Fife) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Jo Armstrong (Accounts Commission)
Blyth Deans (Audit Scotland)
Martin McLauchlan (Audit Scotland)
Derek Yule (Accounts Commission)

CLERK TO THE COMMITTEE

Jenny Mouncer

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Local Government, Housing and Planning Committee

Tuesday 4 February 2025

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Ariane Burgess): Good morning, and welcome to the fourth meeting in 2025 of the Local Government, Housing and Planning Committee. We have received apologies from Meghan Gallacher. I remind all members and witnesses to ensure that their devices are on silent.

Under agenda item 1, does the committee agree to take items 4 and 5 in private?

Members *indicated agreement.*

"Local government in Scotland: Financial bulletin 2023/24"

09:30

The Convener: Item 2 is for the committee to take evidence on the "Local government in Scotland: Financial bulletin 2023/24". We are joined from the Accounts Commission by Jo Armstrong, the chair, and Derek Yule, a member; and from Audit Scotland by Blyth Deans, audit director, and Martin McLauchlan, audit manager.

I welcome our witnesses. There is no need for you to turn on your microphones. We will do that for you—it is one less thing for you to think about. Before we turn to questions from members, I invite Ms Armstrong to make a short opening statement.

Jo Armstrong (Accounts Commission): Thank you, convener—this will be a short statement. I cannot believe that it is just over 12 months since I became chair of the Accounts Commission. My awareness of the financial challenges that local government faces is building all the time. For example, each month, the commission receives reports on how councils are addressing best value and delivering for their communities. There is some great practice out there, but a recurring theme in those reports is financial sustainability, which I know we will turn to today.

Although it is better than expected, this year's budget does not negate the need for service transformation, which we are arguing quite strongly for, as we have been for some time. Demand is growing, and there are on-going inflationary and pay challenges; as well as that, councils have to plan for service delivery against continued uncertainty over how much of the national insurance increase will be funded.

It is important that I and my fellow commission members hold Government bodies to account by reporting publicly, but it is equally important that we highlight and support improvement. You will see us increasingly joining forces with the Auditor General for Scotland, because many of the issues that councils face must be addressed as part of the whole system; it is not just a challenge for local government.

During my first year, I have spent a fair bit of time engaging with key stakeholders and hearing about the challenges and barriers to the transformational reform that we are asking for. One of the approaches that we are going to take is for the commission to use its convening powers to explore such barriers further in the coming year.

The report that we are discussing today is a key commission output. It has come out earlier than the committee might have seen it in the past, and the commission is turning up earlier to give evidence. The bulletin is part of a suite of local government overview reports. Along with our reporting on the finances and performance of integration joint boards—a report is coming out soon—such reports are not easy reading, but they are an important part of shining a spotlight on financial sustainability.

I am happy to be here with commission member Derek Yule, and with Audit Scotland colleagues, to answer any of your questions about the report or any other issues that you think are relevant.

The Convener: I have a series of initial questions that connect to your reflections on your first year in post, which you opened with. Now that you have been in post for a year, have the objectives that you set out for the commission when you came to the committee in April 2024 changed?

Jo Armstrong: No. When I came previously, we were definitely arguing for using the evidence to support our scrutiny and for playing it back to councils to show where good things are happening and how others might improve, on the basis of that evidence.

We feel that possibly more needs to be done in relation to community engagement to justify cuts when they are required. The budget challenge is not going to go away. The additional money that local authorities will receive this year and next will not cover the challenges of increasing demand, pay and inflationary costs.

If there are cuts, they could be one of two things: they could be actual cuts, or they could involve eligibility criteria getting harder and harder to meet, so that it is therefore harder to get a service. If that happens, we want councils to engage with their communities to justify the changes and the spending priorities that they set out. We will probably spend a bit more time this year on understanding how engagement is happening, where it is happening and how it is driving budget decisions.

The Convener: While you have been in your role, have you had any surprises or shocks?

Jo Armstrong: No. The fact that the budgets keep getting balanced is good. Is that a surprise?

The Convener: A good surprise.

Jo Armstrong: It is good—yes. However, behind that lie other things. The reality check is that the books are being balanced, but the challenge is to ascertain what that is actually doing behind the scenes.

The Convener: Certainly.

I move on to the settlement. After a generally positive settlement for local government in the recent budget, as you acknowledged, both your bulletin and the recent Local Government Information Unit survey provide important reminders of the challenges that local authorities face, which you touched on. I am interested in understanding whether the challenges that local authorities face have changed since you first spoke to the committee.

Jo Armstrong: I will bring in Blyth Deans shortly, as he has a bit more detail on the budgets. The challenge that we are facing is that we are having to create efficiency savings year on year. Some councils are good at that, but most of them have not delivered the savings that they said they were going to deliver. That means that they are starting from a negative position next year. Maintaining the ability to keep delivering savings and efficiencies is the greatest challenge that we are facing. Financial engineering or financial planning becomes even more important.

I ask Blyth Deans to give us his understanding of the impact of the budget settlement for next year. While it is good, it does not appear likely to us that it will be sufficient to cover the increasing demand pressures.

Blyth Deans (Audit Scotland): In the financial bulletin, exhibits 2 and 5 provide helpful illustrations of the challenges that councils face. They pick up the budget gap and the bridging actions that councils have had to take, as well as providing a bit more focus on the impact of recurring savings against non-recurring savings.

The committee will have seen from the report that the use of non-recurring measures is clearly unsustainable. As Jo Armstrong has already alluded to, that exacerbates the problem going forward, as any non-recurring measure that is taken in one year has to be found again the next year.

Albeit that the settlement is positive, the trajectory and trend that we have seen up to now make the situation for councils really challenging, and do not take away from the overriding messages that have appeared in recent reports on the need for urgent and more ambitious transformation.

The Convener: I will tuck in another question. How resilient is the sector?

Jo Armstrong: The drawing down of reserves is where resilience sits. However, usable reserves—actual cash-backed reserves—are now declining, and that is against a trend of usable reserves rising. That suggests a degree of challenge around resilience. Does Blyth Deans want to pick up anything in relation to reserves?

Blyth Deans: Not specifically on reserves, but I will speak more generally on the indicators that are available for councils to use in assessing financial sustainability and resilience. The committee will be aware of the local government benchmarking framework, and there is a suite of financial sustainability indicators that councils generally make pretty good use of.

The Accounts Commission is very supportive of the use of the local government benchmarking framework, and we are in fairly regular dialogue with the Improvement Service and directors of finance about how the indicators are being used and how they can be enhanced. As they stand, the indicators provide a helpful picture, but we agree that more could perhaps be included there, some of which I am sure we will talk about as we go through the evidence session.

The Convener: It would be great if you highlighted those points to us as they come up.

Willie Coffey has more questions in this area.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning, Jo Armstrong and colleagues. I have two or three questions.

First, the proposed settlement for this year is £1 billion more than it was last year. That represents a 4.5 per cent increase in cash terms and a 2 per cent increase in real terms. However, if we look back to 2022-23 going into 2023-24, we see that the real-terms allocation to councils went down. Will you give us a flavour of what causes the ebb and flow and the up and down of allocations? Was inflation one of the biggest impacts in relation to that reduction?

Jo Armstrong: I will ask Blyth Deans to give more detail, but the issue is that the funding that the Scottish Government has depends on what the United Kingdom Government gives, which then gets passed through the local government settlement process to give local government its funding.

It is definitely the case that inflation has eaten into the real-terms ability to deliver services, and rising demand adds to the pressures. The settlement might be better than it was, but it will not necessarily deliver the same levels of outcomes because of the demand pressures, as well as the pay pressures—we are not quite sure how they will be covered after the current settlement. There will also be the impact of national insurance costs, and there is not yet clarity about how they will be met.

On the ups and downs, it is good to have a higher settlement, but the extent to which that will deliver measurable additional outcomes is questionable, given the additional demand.

Martin, have I missed anything in particular?

Martin McLauchlan (Audit Scotland): No—that was fairly comprehensive. There is an underlying point around timing in what we have presented in exhibit 1. You will note that we use outturn, which I believe meant that, last year, we reported a slight increase in funding; however, that was due to the timing of the social care transfers from the health portfolio, which increased the 2022-23 funding position. The same will apply going forward.

For 2024-25, the spring budget revision came out subsequent to our publication, so that will impact the 2024-25 position with the flow-through of the Barnett consequentials. For 2025-26, as part of our budget briefing in May, we intend to do a full interrogation of the final settlement. We have not done that yet because it is still subject to negotiation not only in this Parliament but between the Convention of Scottish Local Authorities and the Scottish Government.

As much as our figures are correct, there is always that timing issue, and how we present figures will be impacted by inflation and how we have rebased them for that trend.

Derek Yule (Accounts Commission): As Martin McLauchlan said, one of the key issues is timing. In our report, the figures were taken from councils through a data collection exercise at a point in time, so councils were forecasting what they perceived the gap to be. We are in the period now when those forecasts will be updated and adjusted as the grant announcement is made clear.

As Jo Armstrong said, a number of variables are still not clear. When councils do not know the absolute level of resource that they have to work with, that makes financial planning very difficult. Councils face that timing issue every year, and it might well be one of the reasons why there is a reliance on one-off uses of reserves to manage the uncertainty.

Willie Coffey: That uncertainly does not make the situation easy for councils. They do not know what settlement they will get from year to year, which is why everybody wants multiyear funding agreements.

Jo Armstrong talked about workforce costs. Our colleagues in the Scottish Parliament information centre indicated that between 60 and 70 per cent of local authority budgets can be for pay. Another figure shows that total employment costs have increased by 16 per cent in real terms over the past 10 years. That is clearly having a huge impact on the overall budget that is available to councils, not to mention—although you did mention it—the national insurance issue. Will you give us a flavour of what that continued uncertainty and the cost of workforce wages could mean for local authorities?

Jo Armstrong: I have been in post for only a year, but I feel like a slightly broken record—it comes back to the point that transformation and the pace of change need to pick up because of the known cost pressures. The ability to keep funding those cost pressures requires either increasing income or, if that is not coming, doing things more smartly or differently. The current trajectory suggests that things must change dramatically if the current budget levels are going to continue as the trend.

The ability to surface that partly fits with our desire to see medium-term financial strategies that reflect councils' thoughts on where the pressures will be and allow the conversation to take place about what needs to be prioritised. There is no universal approach to that. I will ask Blyth Deans to talk about the budgeting process and medium-term financial strategies.

09:45

We have seen good examples of scenario planning and of surfacing things if costs rise faster, but we are not necessarily seeing that coming through in engagement about what that means for spending priorities. Local government has been in that space for a while. Things will get more challenging as it becomes harder to identify where cuts can be made, and the ability to shape services is partly limited by some of the policies that are in place.

Does Blyth Deans want to pick up on anything in particular?

Blyth Deans: I can offer a wee bit more context to some of our comments about the medium-term financial strategies and plans. In the report, we note that all councils have in place a medium-term strategy, which is to be commended and is a really good step forward. We recognise that it is difficult for councils to do that, given that it must be caveated and lots of assumptions need to be made. It is also difficult because of the single-year settlement aspect to the overall financial planning model that they face.

We would say, and the commission would certainly say, that medium-term financial planning is essential in the current climate and context, as we have spoken about at length with the committee before. The budget gaps, increases to borrowing, higher interest and difficulty in making savings all point to the need for planning to be as robust as possible so that councils can make the right decisions for the communities that they serve.

Medium-term financial strategies should set out a number of things, with income and expenditure being major parts of them. Again, that must be caveated with, for example, inflation and pay awards—a multitude of variables exist.

It is also important to say that such strategies are an essential tool for councils when having conversations among officers, elected members and communities. They present a realistic view of the situation that the council faces, which means that, when councils enter into such conversations, everyone who needs to be informed is informed. Having the honest, open and transparent ability to convey the financial reality is really important. Without a good financial strategy, doing that becomes very difficult.

I realise that that is a wee bit of an aside from the original question, but it is important to highlight that, without such strategies, the situation becomes even more challenging than it already is.

Derek Yule: The financial forecasts that councils have been working on, which inform the budget gap that I mentioned, will make assumptions about pay, but they were compiled before the increase in the rate of national insurance contributions was announced. There is a lack of clarity about whether that will be fully funded. Another thing to consider is the number of voluntary organisations that councils support through funding that will also face that increase.

I understand the social and economic arguments for increasing wages but, whatever the positive aspects of doing that are, it represents an increased cost that does not necessarily translate into an improvement in service. That is a challenge in looking at how to meet service demand going forward. Yes, there are increased costs, and, as Willie Coffey said, 50, 60 or 70 per cent of councils' budgets goes on pay, but unless there are changes and efficiency gains, the measure will not manifest itself in service improvements.

Willie Coffey: Is there a forecast figure for the potential impact of the increase in national insurance contributions?

Jo Armstrong: Unless somebody tells me that we have a figure, I can only note that you took evidence from the Cabinet Secretary for Finance and Local Government last week, who clearly indicated that there is a range of figures. The extent to which the Scottish Government will get fully funded for that is one thing, but the extent to which that leads through to local government getting fully funded is a different question.

I think that the issue is the Scottish wage rate, so the increase in national insurance contributions is greater than is fed through from Barnett consequentials. I think that a lot of negotiations are going on in the Scottish Government and the UK Government at this stage. We do not have a figure that we would say is the right figure.

Willie Coffey: Do you not have a figure to hand from the statements that have been made, just to assure the committee?

Jo Armstrong: Are you asking about the statements from the cabinet secretary?

Willie Coffey: Aye.

Jo Armstrong: Yes, I am sure that we do. Do you want to comment, Martin?

Martin McLauchlan: Yes. The report is very much a retrospective piece of work, so we have not looked in detail at 2025-26. However, in its communication with the Scottish Government, COSLA estimated that the NI increase would cost local government an additional £265 million.

Willie Coffey: Is that at the low end or the high end?

Martin McLauchlan: I could not tell you. That is the headline figure that COSLA has publicly stated.

Willie Coffey: Blyth Deans, you talked about the measures that councils are adopting to try to bridge the budget gap by looking for recurring savings and so on. Will you give the committee a flavour of what councils are doing to assist that process?

Blyth Deans: Exhibit 2 in our report presents the current picture for councils when it comes to bridging the budget gap. As I mentioned, we recognise the funding difficulty that they face in keeping up with the pace of demand, and illustrating the budget gap is a useful way to explain that. The colour coding in exhibit 2 sets out the main measures that councils take. The commission has recommended that councils adopt as many measures that involve recurring savings as possible, because, as I mentioned, any savings that are not recurring will need to be found again next year, so the can is just kicked a bit further down the road.

A range of approaches are taken across councils. We have picked up, not only in our overview reports but in the local best value reports that we have published recently, that there is an unsustainable use of reserves to bridge budget gaps.

Going back to my earlier answer, I note that exhibit 5 is an important reference point in analysing recurring savings against non-recurring ones. Councils set targets on savings to be delivered. The targets can be really ambitious—or, perhaps, not so ambitious—and performance against them varies across the country, as exhibit 5 shows. The further down exhibit 5 we go, the higher a council's reliance on non-recurring measures. It shows the councils that have struggled to achieve their targets and, ultimately, to bridge the budget gap.

We will pick the issue up in our publication in May on council budgets for 2025-26. At the moment, councils will be in the process of setting their budgets, and we intend to explore in specific detail the recurring measures that councils are able to deliver, and to shine a light on the councils that have been able to do that. That will be a route for sharing practice across the sector.

Willie Coffey: Thank you.

The Convener: Our next theme is reserves, debt and financial sustainability.

Alexander Stewart (Mid Scotland and Fife) (Con): Good morning. You have already touched on the situation in which councils find themselves with reserves. Your bulletin talks about a 5 per cent decrease in councils' total usable reserves. Reserves have been used to balance the books in the past, but was 2023-24 a tipping point in reserve trends for many councils? Are any councils in a concerning situation in which they have low levels of reserves or have exhausted the majority of their reserves? How will they manage to sustain things?

Jo Armstrong: I will bring in my colleagues to provide more details, but I will give the headline figures that the commission is working with strategically. The depletion of reserves, including usable reserves, is a clear sign of stress. The fact that, not for the first time ever but for the first time in a while, councils are having to dip into reserves—you talked about a "tipping point"—signals that there is increasing stress. The fact that councils have had to make unplanned use of reserves suggests that uncertainty is now causing problems for financial planning.

Are we seeing particular stresses and strains in any individual council? We are not currently, but we are mindful that our auditors will tell us when there are challenges. The controller of audit will be in regular contact with auditors, section 95 officers and chief executives.

Blyth, will you pick up on the specifics in relation to reserves?

Blyth Deans: Paragraph 52 of the bulletin sets out the reality that councils face in relation to their reliance on reserves. More than a quarter of the budget gap—more than £200 million—is being met through reserves. That provides quite a stark picture. The fact that 12 councils made unplanned use of reserves, as Jo Armstrong alluded to, was quite eye opening. There was quite a lot of planned use of reserves, so the fact that 12 councils made unplanned use on top of that shows the challenging dynamic that councils face.

I will give a wee bit of detail on the reasons why councils made unplanned use of reserves. West Lothian Council was one of the councils to do so. That was to cover the cost of the pay award, so it was not reimbursed until the following financial year. West Dunbartonshire Council's unplanned use was quite simply to cover the overspend position. Scottish Borders Council provided £1 million in financial support to the leisure trust there, and other councils provided support to the IJB in their areas. There were a range of factors at play. Some councils had to be reactive and needed reserves.

To go back to your original question, it is important that councils have reserves to provide resilience and so that they can be responsive to shocks by calling on reserves. Once reserves are used, they are gone and will not be available going forward. On the point about exhaustion or depletion of reserves, we have not carried out that projection but, as Jo Armstrong said, that will be factored into the local auditors' consideration of financial sustainability at the local level.

The level of reserves is just one aspect—we will probably get into councils' debt position as well—but it is important, particularly with regard to the uncommitted reserves that are available to respond to unforeseen events.

Derek Yule: The situation leads to questions about the accuracy of councils' financial forecasting and suggests a need to understand the unforeseen pressures. Blyth mentioned pay. If the use of reserves is about that, a council might want to consider how risk averse or otherwise it was in its estimates. With other issues, such as pressure on leisure trusts or IJBs, I would be looking to councils to take action to consider why the overspends arose and think about what they are doing to address that. Reserves are fine to bail out the budget on a one-off basis to deal with a specific problem. If that happens as a one-off, it is not so bad but, if it is recurring, councils need to make sure that action is being taken to address the issue.

Alexander Stewart: You have touched on councils' ability to do short-term and medium-term financial planning, but there is an issue with long-term financial planning. You have indicated that about half the councils in Scotland do not have long-term financial planning in place. Not being able to foresee what the future holds must be a problem for them—it is very difficult, but they need a flavour of where things are going. How are you encouraging councils to do long-term planning? What would you like councils to do to ensure that they take on board your concerns and attempt—even if it is just an attempt—to get long-term financial planning in place? That might help if anything problematic comes up, because it could be managed. However, if they do not do that planning, they will not be aware of what could happen in the long term.

Jo Armstrong: I suspect that all the councils have professional accountants who are probably doing financial planning, but they might not necessarily surface that. Work is required behind the scenes that at least gives the controller some comfort that they know what they need to do, but that does not require decision making at leadership or political level. I am pretty sure that it would be wrong to say that councils are not doing that planning; it is just that we do not see it. We are about to publish a piece of work that suggests that councils need to produce medium-term financial plans that we can see and, probably more importantly, that are available in a digestible form for communities, council leaders and those who make requests of local government, so that they can understand the financial outlook for councils.

Without that, it can come as a bit of a shock when services are cut or reduced in quality. If councils do not have that knowledge, they cannot argue their case so well. I am not of the view that councils are not doing that planning; they are just not necessarily surfacing it in a public format that is available for us to see.

Derek Yule is more au fait with finance directors' workings.

10:00

Derek Yule: That is probably a fair comment. A lot of the financial modelling that is done over a three to five-year period, or even longer, largely involves taking the status quo and projecting it forward. Assumptions will be made about pay, price inflation, the level of Government grant, income levels and so on, as well as—to some extent—demographic changes. In that sense, it is a model that comes up with a number.

Jo Armstrong makes an important point. The issue is the degree to which council officers make members aware of what the projections mean. As an accountant, I can say that, as a profession, we are not always very good at putting things into layman's terms. It is a question of understanding what the service implications are.

At a high level, we can say that the status quo, if we project it, is not sustainable. That is the point that we are stressing. The issue is what councils do about that. How are they acting on that information? It is only a model, but it is important that they look at how they can change the way in which services are provided and how they can engage with communities to get more robust figures. For me, the service implications are as important as the figures themselves.

Alexander Stewart: You have also touched on the amount of debt that councils are managing. In the bulletin, you say that councils' debt stands at almost £20 billion, which is a 15.8 per cent increase on the level of debt in 2022-23. That is a substantial amount of money and a substantial increase. At what point do the levels of debt become unsustainable for councils to manage? Are there any councils that you think are moving towards having a worrying level of debt that causes even more concerns about their ability to provide best value in the communities that they represent?

Jo Armstrong: I will ask Martin McLauchlan to provide a bit more detail. In order to borrow, councils need to follow the prudential borrowing rules. They need to be seen to understand how the borrowing can be repaid and to be sure that it is affordable within the framework in which they are operating. The prudential rules give them those guidelines.

With regard to whether £20 billion is too much, I would not want to say that the Accounts Commission has a view on how much debt is too much. Our auditors look at the financial stresses and strains of the debt burden that each local authority runs.

I invite Martin McLauchlan or Derek Yule to add to that.

Derek Yule: When the prudential code was introduced, it replaced capital expenditure controls. Because the prudential code provides a greater link between capital and revenue, it gives councils a much greater degree of discretion with regard to how much importance they attach to capital investment, as opposed to the provision of revenue for day-to-day services. Those decisions are now more open to councils.

In theory, a council can borrow as much as it wishes, provided that it meets the criteria of the prudential code, which are that the borrowing is sustainable, affordable and prudent. Basically, that means that it should be affordable over the longer term.

Martin McLauchlan or Blyth Deans will keep me right on this, but there is a local government benchmarking indicator that looks at the level of debt as a percentage of the council's total budget. Although that percentage is still fairly low, it becomes a virtually fixed proportion of the council's budget. If debt is 5 per cent of a council's budget, although there are things that it could do at the margins, by and large, that almost commits a chunk of its revenue budget for the next 20, 30 or 40 years. Councils need to be very mindful of that.

As the report says, councils need to invest in their assets, because if they do not do that, it can generate greater pressure on services, because buildings, for example, become not fit for purpose. There has to be a level of investment.

The other thing that has had an impact on the figures is the investment in the learning estate investment programme—the LEIP—which now requires councils to borrow the money directly, while the Government provides revenue grant support. I think that that will have distorted the figures to some extent.

If we look at the statistics, we can see that the debt repayment figure does not make up a particularly significant percentage of the overall revenue budget. However, the caveat is that it represents a fixed chunk of the budget.

Blyth Deans: I can give you that figure, if that would be helpful. Derek Yule is right—he was almost bang on, as it is around 5 per cent. It is at 5.8 per cent at the moment, which is up slightly from 5.4 per cent last year. That represents the financing costs for the general fund as a proportion of net revenue stream. As Derek Yule said, it is a small percentage, but it has an on-going revenue implication for future budgets.

Within that, some councils had slightly bigger increases than I was expecting. Highland Council was at 11.6 per cent, up from 7.2 per cent the previous year. In that case, the auditor reported that borrowing levels were increased to fund the capital programme, so there are specific reasons for those slightly bigger-than-expected increases.

However, 5.8 per cent is still a lower percentage than we have seen at any point in the previous 10 years, other than last year.

Alexander Stewart: My final question is about customer and client receipts. In the bulletin, you talk about them being 12 per cent—£253 million—lower in real terms than they were before the pandemic. Is there a reason why that is the case, or do councils have the opportunity to raise income by putting up some of their charges? Has it got to the stage that charges are getting too high? Is there still some room for that to be managed in a way that would get us back to the pre-pandemic position? Alternatively, is it the case that those days have gone, and the councils feel that they can go only so far, because they know that going further might end up having diminishing returns for them, as putting up charges might, at the end of the day, cost them money rather than bringing in income?

At the same time, councils have to consider what receipts they can deal with and the areas in which they can afford to do so, because that is another income stream that would have a knockon effect in other areas. It would be good to get a flavour of what you think about those issues.

Jo Armstrong: The income stream from fees and charges is important, but it is not significant compared with the money that councils get from the Scottish Government. That is by far the biggest funding stream, followed by council tax and non-domestic rates.

Fees and charges are a double-edged sword. If people need the service and cannot afford it, they will either end up with a bad debt or a higher charge later on when they come back needing more service. Is there anything I have missed on that, Blyth?

Blyth Deans: No. The basis of the question, which is that consumer behaviour has changed since the pandemic, is correct. Aberdeen City Council's accounts and the management commentary reflect that—they show that the slow recovery of income has been as a result of the challenges related to customer behaviour having a slightly longer-lasting effect than councils anticipated. For Aberdeen City Council specifically, that has been particularly relevant in relation to things such as car-parking income, venue and events income and commercial property receipts.

From our review of the management commentaries of council accounts, we have highlighted a number of areas in which uptake is not at the level that councils would have anticipated, such as garden-waste uplift services. That is creating a small gap that contributes to the larger gap that Jo Armstrong mentioned, in terms of where customer and client receipts fit into the overall funding picture for councils.

The Convener: Fulton MacGregor has some questions about capital issues.

Fulton MacGregor (Coatbridge and Chryston) (SNP): Good morning, and thanks for the evidence so far.

The bulletin highlights that failure to invest in infrastructure increases the risk that asset failures may impact services. In your experience so far, have you found any evidence that that is happening at the moment? If so, what services have you found to be most at risk?

Jo Armstrong: I will definitely ask Martin McLauchlan to talk about the specifics around that, but I will turn the question slightly on its head and say that, with regard to the capital allocation or the capital budget, the idea of a like-for-like replacement suggests that the current operating model continue. If we are talking about transformational change, we might expect to see a change in what assets will be required to deliver those changes. I think that we are beginning to see an acceptance of the fact that a joined-up approach to asset management and asset use will start to generate savings, but that takes time to push through.

A council that is having to think about changing its services is certainly not thinking about maintaining the existing asset base if that service is going to diminish or be changed completely. We are facing challenges in relation to offices and buildings that are underutilised, and the desire to get people to use them differently is increasing. We should take time to think about what is needed, rather than automatically assume that everything will be replaced.

Martin, can you give some specifics on the capital programme costs?

Martin McLauchlan: Yes. The point that we make in paragraph 36 is more of a general point. It is well accepted that, when you are not investing in or renewing your estate, ultimately, there will be increased maintenance costs. That is not particularly controversial.

We have seen capital underspends in a significant number of school projects, as well as in housing and general infrastructure projects. The majority of the capital underspending tends to be on traditional infrastructure projects, rather than on the wider elements of digitalisation or information and communications technology costs.

Without getting into specifics, we are all aware of the challenges around reinforced autoclaved aerated concrete in elements of the housing stock. There have been high-profile cases of local communities feeling that local schools are not fit for purpose.

Derek Yule referenced the LEIP earlier, and there have been significant delays to that programme. In order to complete it by 2027, we need an uptick in its pace. It is more of a cumulative impact, and that also speaks to the issue that Jo Armstrong raised around maximising estate rationalisation, looking at possible opportunities for shared estate and identifying surplus assets. That all becomes more difficult if the capital programme and capital investment are falling behind.

However, within that wider context, it is fair to say that there are significant supply issues as well as cost issues. Some of them predate the Covid-19 pandemic, but the majority have come to the fore since then. The range of estimates for the increase in capital construction costs in the past decade generally ranges between a quarter and a third. Again, failure to invest in the estate means that, ultimately, the initial project that has not been delivered will end up costing more, so there is an element of cumulative impact.

Fulton MacGregor: I will come to housing in a wee bit, but I have a question to ask in the chamber tomorrow about capital investment in schools. In North Lanarkshire Council, in my constituency, there are a lot of new school builds, about which I am delighted, but there are pockets where there are no plans in place to renew schools that are very outdated. One of those areas in my constituency is Moodiesburn, which is a particularly impoverished area.

Are capital investment issues more likely to affect particular communities and demographic areas?

Jo Armstrong: Again, the allocation of funding for schools is a political decision. Derek Yule might know more about the detail and practicalities of it. With regard to having the right schools in the right places, the demographics have an effect on the allocation of funding. However, it is not in our locus of interest to argue that some areas should get funding and others should not because of demographics.

Derek Yule: I do not want to go over what others have said, but there are two sides to the equation. The report gives evidence that councils are borrowing more, partly because there has been a reduction in the Government grant, and that suggests that councils are seeing the importance of investing.

The other question is whether they are actually spending. We have seen a number of best value audit reports. Underspending on capital is a common theme that crops up. We would challenge councils to make sure that they are getting value for money from the capital investment that they make. The market seems to be particularly challenging just now in terms of increased costs, and it is an on-going challenge.

However, a lot of councils seem to have longer-term asset plans in place—I have seen 10-year plans in a number of councils. Jo Armstrong has referred to local political priorities: a council's capital plan should represent the priorities of the council, which will—and, indeed, should—be based on demographics, but I am sure that there is an element of political choice in that as well.

10:15

Fulton MacGregor: I probably phrased the question wrong, because I went on a wee preamble before it. I was asking, rather, whether you think that councils should prioritise certain areas, although I can understand that that is not your remit. Rather than your recommendations to councils, I was trying to get at whether you think that certain communities and demographics are more likely to be impacted when there is a failure to invest in infrastructure services. Is that something that you would see?

Derek Yule: We have not really looked at the issue at that kind of level, to be honest. Ultimately, there is a finite sum of money that the council will either have available or deem to be affordable—it is the balance of the revenue budget that I mentioned earlier—and how it chooses to spend that sum is largely up to it. The actual grant largely uses the school estate and the roads network as the two main criteria for distributing funds to each council, but how councils spend those funds is largely a matter for them.

Fulton MacGregor: Moving on, the committee was quite surprised to hear that two councils do not have multiyear plans in place. I should say that I do not represent an area that covers either South Lanarkshire Council or Stirling Council—I do not know whether any other members with more local links will want to come in on this. Do you know the reasons for that situation? What should change to encourage or enable all councils to have such plans in place?

Jo Armstrong: We cannot force councils to have plans. We can argue the benefits of having them and argue for clarity around how they are allocating their funding based on engagement—and, therefore, on having those plans.

I ask Martin McLauchlan to come in on the extent to which those two councils have not submitted plans or given us the data.

Martin McLauchlan: I am better versed in South Lanarkshire Council's situation than I am in that of Stirling Council, because of the delay in submission of the latter's annual audit report to us.

There is a degree of semantics to the situation, in that South Lanarkshire Council has a 10-year capital strategy but does not articulate it into a medium-term plan. It approves a capital plan annually—partly so that it can programme it to be affordable—which forms part of its annual budget setting. It is not that it does not have a longer-term capital strategy and a clear range of projects that it wishes to undertake that are aligned to its council priorities; it is about the articulation of that strategy and the approval process.

On Stirling Council, I would be speculating, but I suspect a similar rationale, in that it is taking account of the reduced capital grant, looking at its borrowing to the potential indicators and forecasting it in that way, therefore bringing it forward for approval on an annualised basis. It is similar to what we have said about the long-term financial strategies. It is not that the council does not have a clear understanding of the infrastructure needs and their prioritisation or, indeed, an estates management plan; it is just about their articulation.

Fulton MacGregor: It is really helpful to get that on the record and to clarify that for both those cases.

The committee has been quite surprised that some councils have underspent in their housing projects, despite many of them announcing housing emergencies last year, as you will be well aware. Are you able to explain the reasons for that? Did you manage to get into them?

Jo Armstrong: Martin McLauchlan will have the detail. I declare an interest in relation to housing, in that I am chair of the Wheatley Group, so I am acutely aware of the challenges of, and delays in, building new-build programmes. Martin, will you outline the details from individual local authorities?

Martin McLauchlan: Yes. As I have said, that is one of the areas where a significant number of councils reported underspending.

However, that is not unique to housing. It is subject to the same pressures on delivery as local authorities' overall capital programme in relation to capacity across the construction industry and the degree of certainty around annual budgets. Ultimately, capital planning is easier in a multiyear environment because you can build relationships and a pipeline of works.

Exhibit 7 lays out general reasons for project slippage. A small number of projects have been deferred in order to manage the annual spend, but I am not aware of those being specific housing projects. They have tended to be from other service areas, where there tend to be delays around contract negotiations, breaking ground or unforeseen circumstances. There is also the wider element of the planning regimen. I think that the City of Edinburgh Council accelerated elements of its house-building programme in 2023-24, because it had headroom and had managed its overall capital programme.

Although a housing emergency has been declared, and it is an area of great interest, I am hesitant to treat it as being any different from other capital projects. It may be more complex in that there is a need to meet demand and a need for community assets to be built around it, but it is certainly not an outlier in the challenges that councils face in delivering those projects.

Fulton MacGregor: It is useful to hear you say that there are issues and demands other than councils' commitment to getting houses built. Do you have a list of the councils that have housing underspends? It is fine if you do not; perhaps you could provide the committee with that.

Martin McLauchlan: We do not, but we would be happy to provide that in writing. It formed part of the additional data collection that we asked councils to submit to us; we will do a trawl of the annual audits.

Fulton MacGregor: I appreciate that.

The Convener: We have just covered new builds, but when you talk to councils about their capital spend on housing projects, do you talk to them about bringing on empty homes? We have all identified that as a big and important piece of work in relation to the housing emergency.

Jo Armstrong: We are in danger of stepping into the role of the housing regulator, and we tend not to go where other regulators sit. We are acutely aware that that is an opportunity for local government to find solutions in certain areas.

The Convener: In the most recent budget, we had an increase in funding for empty homes officers and that whole piece, so it will be interesting to see how that plays out in the next year.

Martin McLauchlan: That will form part of the overall investment strategy in local authorities' housing revenue account capital planning. You would not expect to see an entire capital programme of new builds. There is a degree of maintenance and upkeep of the existing housing stock, and part of that will include bringing vacant properties back into being habitable.

The Convener: We move on to reporting and transparency, and I bring in Emma Roddick.

Emma Roddick (Highlands and Islands) (SNP): Good morning. There still seem to be issues with the transparency of some council annual reports in relation to savings and reserves. What more can be done to ensure that the commission and the general public can get the data that they need?

Jo Armstrong: I will turn to Blyth Deans, because that is his bête noire, but I am conscious that we continually say to councils that it is not clear what they are doing with reserves, savings and efficiencies, whether committed or uncommitted. We will attend the directors of finance meeting this week as part of our engagement with stakeholders, and a key element of that will be greater transparency around those figures. If we cannot understand them easily, we cannot expect communities, council leaders and councillors to understand them, so it is a cri de coeur.

If you are used to your own jargon and you are time limited and getting things done, it is not about trying to hide things, because you and your peer groups will understand the issue. It is about doing what you have done before. However, with the committee surfacing the matter and with you and us asking those questions, I think that the directors of finance are beginning to realise that there is an issue that needs to be dealt with.

Blyth, am I right about that?

Blyth Deans: Absolutely. I have sat in front of the committee and spoken about transparency a few times. There have been small improvements. The case study that we provide on page 29 of our report discusses how councils could be more transparent in the way that they disclose information about reserves. All councils clearly identify areas of reserves that are earmarked or committed, but the commission is keen to see more detail on the reasons for those commitments and the plans for the spend.

There is also a wider point about how clearly that links to their medium-term financial strategies. In response to Mr Stewart, we mentioned that some councils are planning to use reserves to bridge the budget gap, which should feature as part of the medium-term financial strategy. It is vital that there is a clear read-across from the accounts to the medium-term financial strategy on the committed aspects of the reserves.

Some councils make their own assessments of financial sustainability and resilience when they are setting their budgets, particularly those that follow the Chartered Institute of Public Finance and Accountability’s financial management code. The section 95 officer, who is usually the chief financial officer or their equivalent, will make a declaration on their assessment of the council’s financial sustainability. There are some fundamental building blocks that factor into those judgments, including the level of uncommitted reserves and the track record in delivering savings. That all adds to ensuring that those things are as clear and transparent as possible.

As Jo Armstrong said, it is really helpful for the public, who expect certain levels of service, if the challenges that the council is facing are set out, so we will continue to refer to that in our reports. As I mentioned earlier, we will publish a paper in May on the 2025-26 budgets, and we will conduct an assessment of the levels of transparency and clarity of the budget-setting papers that the councils put forward.

Emma Roddick: There were no data returns from Clackmannanshire Council and Comhairle nan Eilean Siar. Were reasons given for that?

Jo Armstrong: Yes. Capacity issues were key, either because the council was catching up due to Covid or because it had individual capacity constraints.

Blyth Deans: There were specific circumstances. I do not want to say that they were absolute one-offs, but I hope that that is the case and that we will get back on track next year.

As Jo Armstrong mentioned, we have a much closer relationship with the directors of finance at councils on the data return process that we adopt for our work, and we welcome the uptick in the quality and consistency of responses. Going forward, we hope to have a complete population to base our analysis on, but we have been clear in our report that there are caveats due to those councils that have been unable to submit data returns. We have not had access to some accounts due to specific circumstances that relate partly to capacity in the councils and the audit teams that were appointed. In the report, we have tried to be as clear as possible about where things have been based on a sample.

Emma Roddick: There seems to have been an issue with getting audited accounts from councils on time. Is the commission concerned about that?

Jo Armstrong: Each audit is investigated by the controller of audit fully and regularly. We understand the stresses and strains that are causing delays. There are capacity issues on both sides, with the auditors and the councils. We are not hearing anything that would suggest that there is a major problem as a consequence of a delay, or that delays are hiding a major problem.

Emma Roddick: The commission has stressed that involving communities throughout the budget process is vital. What are the best practice models for that? How can all local authorities get better at working with communities when they are deciding how to spend?

Jo Armstrong: You are quite right: there are multiple models, and the process is on-going and enduring—it is not a one-off. We argue that councils need to tell us how they are involving communities and that they should give us comfort that that is giving them sufficient reach and an understanding of all communities.

Councils should not involve only those who automatically come to their door; they must reach out further. Is there enough evidence of that going on? No. We are not hearing it, although we have not necessarily gone out and asked for it, so we are beginning to ask. As I said at the beginning, our desire over the next 12 months is to get a better understanding of how community engagement is happening, where it is happening and where the best practice might be, as a way of raising expectations and aspirations. Some councils are doing it really well and some are following on. The next 12 months will be about reinforcing the need to be seen to be engaging because, if you are making cuts, you need to make the cuts that communities might not like but will accept, and which they are forewarned about rather than just seeing them imposed.

10:30

The Convener: Thanks very much for that. We move on to public service reform and the Verity house agreement, and I bring in Mark Griffin.

Mark Griffin (Central Scotland) (Lab): Good morning. When we had the finance secretary in front of us at committee, she talked about potential areas for reform in local councils. The examples that she gave were procurement, shared services, information technology services and children's services—a whole range of areas that could be discussed. Does the financial settlement give councils the capacity to carry out those reforms? Do they have the necessary resources?

Jo Armstrong: All councils have allocated some of their reserves for transformation. Is that enough to deliver the transformation that is required? Probably not, although I cannot say for certain that that is the case. The transformation that is required must be significant and enduring, so it is not about a one-year budget allocation requirement.

The cabinet secretary talked about having quite radical changes in her mind. I would not be so bold as to say that those examples are the right ones, but the changes must be radical, although they will not happen quickly. The frustration that we have in the commission is that, in order to square the circle in the budgets, there needs to be transformation and a quicker pace of change, but transformation will not deliver the necessary change quickly enough to make the savings that are required in the current budget cycle.

We need to have an allocation of funding and the brain space to do that transformation. The work of the Improvement Service and the Society of Local Authority Chief Executives and Senior Managers is critical in allowing that brain space and thinking to happen and in being bold around what transformation looks like. Our convening powers are used to give those who are uncomfortable about radical change a bit more support so that, if they come up with something that is radical, they will not be pushed back because it is not the norm.

I have been challenged by those who say that we are managing decline. I think that we are managing the next vision and the next opportunity, but it is about radical change rather than small-scale savings.

The cabinet secretary gave quite a good outline of some of the opportunities that are out there, but the planning and implementation skills that they require need to be funded and fed. The transformation funding that is available should be used for that and not as reserves to fill short-term annual budget gaps.

Mark Griffin: Some of those authorities will be risk averse and they may not be up for the radical change that might be required. Should we be looking at the carrot approach rather than the stick approach that is sometimes used? Is there potential for a change fund to be set aside that local authorities could bid into when there is a real, defined programme of reform that the fund could facilitate?

Jo Armstrong: I think that the Improvement Service and SOLACE have identified funding for some of that work. I think that the cabinet secretary has also allocated £30 million for a change fund for the particular purpose of allowing authorities to bid in for a programme, project or series of projects that will kick-start the transformation that is required. If we are to have radical change that is enduring, it will have to come from the councils' resources, and their leadership must want to make it happen. It will not happen through local authorities being dragged along or piggybacking on somebody else.

There is an issue here. By using our convening powers, we are attempting to encourage those who want to make the change to find a way of bringing those who are less comfortable about radical change to the table or, at least, giving them the ability to say, "If you want to make that happen, it's not going to take just one solution", and letting different solutions go forward. I hope that, by doing that, we can support those in the lead who want to make this happen more quickly.

Blyth Deans: I want to further illustrate the point that councils definitely recognise that transformation will be a critical part of their journey towards financial sustainability. Of the 30 sets of accounts that we were able to analyse, we identified that 27 held reserves specifically for transformation, and the quantum is to the tune of £270 million. One would think that that would give councils some ability and capacity to start the process and identify opportunities to generate future savings or, as you said, embark on slightly bigger projects that will ultimately help by providing a more efficient and proportionate approach to service delivery. That money exists. As Jo Armstrong said, the announcements from the cabinet secretary and the other funds are supplementary to that.

Mark Griffin: The next area that I want to cover is work on the fiscal framework. We have heard from the Government that it expects to produce at least a version of that framework by the end of this month, but what engagement have you had with COSLA and the Scottish Government on it? Is there anything that you explicitly expect to be in that document when it is published?

Jo Armstrong: No. There was an interesting debate last week about taking a rules-based approach to budgeting. That looks or sounds like a simple solution but, when you start to dig into it, it becomes much more complex. As somebody who has had to get their head around the Barnett formula and consequentials, I know that that is not simple, and the more that you have to deal with in-year adjustments, the harder it becomes to hold on to those rules. We need a reality check on what is possible.

We are willing and able to support something when we see it. However, although we have been in discussions with COSLA and Scottish Government officials, we have not to date seen anything specific that we can comment on.

Mark Griffin: My final question is on a huge area of reform that we expected to see: the national care service. The Government announced a couple of weeks ago that huge parts of that will no longer be taken forward. There have been years of planning, consultation and development with a price tag of upwards of £30 million. If we cannot see meaningful reform after all that work, time, effort and money, is it time to lose hope that the real, radical reform that we need in local authority services will happen?

Jo Armstrong: It is important to point out that the national care service was clearly a joint endeavour between local government and health. As I said in my opening statement, we are engaging with the Auditor General more to ensure that we say things collectively. At the moment, if we were to talk about what is happening in, for example, IJBs—there is a report coming out on that—it would be unfair if we did not talk about what is happening in health, too. However, that is not our area of responsibility.

As far as that area is concerned, we will be doing more with the Auditor General at least to indicate where the challenges are. Again, it is not for us to say what should happen; it is more about indicating where the challenges are and what the financial and service implications might be. The IJB report that will be coming out clearly signals the financial pressures that IJBs are facing, and if there is no radical change, those pressures are just going to get worse.

That brings me back to the point that I made at the beginning about trying to surface where the cuts are happening and, indeed, what the cuts are, and doing so in a way that gives clarity on whether communities are happy with that approach, whether we are getting value for money from the money that we are spending and so on. That goes across health and social care.

Mark Griffin: Thank you.

The Convener: I am going to pop back to Willie Coffey for a question on pension funds.

Willie Coffey: In paragraph 55 of the report, the Accounts Commission talks about the Strathclyde Pension Fund and the windfall that members of that fund have received. However, there are not really any figures about the size of the windfall that each of the fund's 12 members actually received. To return to the transparency that we were talking about earlier, do those members declare that figure in their own accounts so that we can see what they have made from the fund? Also, I know that they are planning to reduce their contribution over the next few years, which will again save them significant amounts of money. Is that quantified anywhere?

Jo Armstrong: I am pretty sure that it is quantified.

Martin McLauchlan: Yes, it will be, because the triennial revaluation, which we speak about in the report and which is the basis for the reduction in employers' contributions, is included in council accounts. I am thinking back to when I had to do those accounts, but I believe that employers' NI and superannuation contributions are disclosed. We will be able to update you on that and the HRA capital underspends, but I do not have the figures to hand.

Ultimately, if this year's figure is based on contributions of 20 per cent and you are reducing your contributions to 6 per cent, you are able to roll forward the difference. However, there is a cumulative aspect to that figure, which is subject to change due to any agreed pay increases. That is a long way of saying that we have the figures and will provide them but they are not to hand.

Derek Yule: I will add a couple of points. The saving manifests itself in the charge to the revenue budget. It is a budget saving, so it will not materialise as a lump-sum cash saving, but it will enable councils to reduce their contributions to the pension fund, which will provide a budget saving.

As a commission, we are interested in understanding that situation. The Strathclyde fund, in particular, is mentioned in the report, but we are aware that other pension funds are in similar funding positions. We are interested to know how councils are dealing with that. The paragraph that you highlighted illustrates that some councils are taking a different approach to it. To go back to our earlier discussion, are councils taking a short-term view in order to kick the proverbial can down the road, or are they varying their contributions as part of a more strategic planning process?

I certainly want to be clear on whether reducing contributions to the pension fund over the next few years will create a long-term problem for future years. We have been asking the auditors to check that as they go through the audit process.

Willie Coffey: I am sure that committee members would welcome any figures that you can find on the windfalls.

The Convener: I have a couple more questions. The first is about the report into fraud at Aberdeen City Council. Given that the fraud has come to light, how confident are you that other local authorities have adequate safeguards in place so that it does not happen elsewhere?

Jo Armstrong: That is a valid question. Having been in finance director roles, Derek Yule might be better placed than me to answer it.

The fraud in Aberdeen is an enduring example as it hit the lower level of what we call materiality. The council did not have the right checks and balances or co-signatories in place. I have sent a letter to all chief execs and finance directors to warn them to be wary of that issue. Equally, auditors have been asked to share when they find anything, and there has been a bit more diligence in those areas. You cannot necessarily stop people who really know the system, but you want to make sure that there are enough checks and balances in place, because there were clearly not enough in Aberdeen.

Do you have anything in particular to add, Derek?

Derek Yule: There is probably nothing that I can add to that. It would be wrong of me to sit here and give the committee assurances that fraud is not happening elsewhere, but there is nothing to indicate that it is.

To be honest, it is a wake-up call for every council in the country. It is a significant fraud that happened over a substantial period. It is not that the council did not have controls in place; it did not adhere to the controls, and it allowed an individual to be able to control the system.

I was struck by the level of council tax that was due to be refunded to individuals, which is what the fraud was about. The figure in question should have been sitting on the council's balance sheet. In my previous life as a director of finance, I liked to look at balance sheets and the figures that were being carried forward year after year to understand what they were and what they reflected. To me, those figures should not have been increasing without somebody asking about what was happening. There are a number of learning points from that. All that we can do is publicise and make sure that the individual auditors and councils are aware of what happened. I expect them to check that that could not happen anywhere else.

10:45

Jo Armstrong: I flagged up that a key feature in all that was that the whistleblowing process worked really well. The fact that somebody was willing to challenge their boss, and to do so twice, is to be praised, as we said. The whistleblowing system clearly worked in that case, eventually.

The Convener: That can be a challenging position for someone to be in. It is great that you have reached out to the chief executives and auditors. As you say, that is—

Jo Armstrong: What we can do.

The Convener: Exactly—it is what you can do.

I want to take a moment to explore best value. The definition from the Accounts Commission states:

> "Best Value is about ensuring that there is good governance and effective management of resources, with a focus on improvement, to deliver the best possible outcomes for the public."

That is what you are all about. All morning, we have been talking about the fact that councils are really under pressure. I will mention a kind of case study as an example. In my region, the council has said that it has to close a community centre for various reasons, and there has been an outpouring from the community. That comes back to the point that Jo Armstrong and Emma Roddick touched on about involving communities in what is going on. There is clearly a passion for that community centre—people use it, and it is well loved.

I wonder what the scope of best value is. We have talked about the financial aspects, but there is a social-glue aspect as well. In the past, way before we had plumbed-in water, people would all have met at the well and had their chats and so on. That is what that community centre provides. To me, there is something about best value that goes beyond the financial aspects; it is about creating a place where people have contact with one another, which is becoming increasingly important. We have understood that point since coming out of Covid, when people had a tremendous experience—not a tremendous experience; a terrible experience—of isolation and the impacts of that.

How do you see best value? Do you take that issue into account when you are thinking about things such as efficiencies, changes and transformation?

Jo Armstrong: It would be wrong not to listen and see what is happening in the press. Just yesterday, I read about local schools being closed, which is causing problems for communities in rural areas. Those schools are the glue for the communities, but they do not fit the financial envelope for the council. I get that. That is why it is important to understand how the budgeting process works, and for that to be fed back to communities so that they understand the implications and have a chance to argue their case about why certain things have to change or be cut. If you cut something, there will be unintended consequences, although they might come a couple of years down the track, so articulating them early on might mean that councils take a different view.

We do not, however, have a direct interest in whether councils have looked at the social aspects of best value. Community engagement and community input to the decision-making process allow for some of those aspects to come forward and give communities an opportunity to have a stronger voice. Communities are now taking councils to court—judicial reviews are happening, which is costly. Factoring in the cost of doing or not doing things needs to be part and parcel of the best value process. However, we do not go into that level of detail—certainly not currently.

The Convener: That is helpful. It is interesting that communities are taking councils to court over some things.

On participatory budgeting, we have talked previously about the fact that what we are seeing in Scotland is more like participatory grant making, and that we need to move to participatory budgeting.

Earlier, you spoke about different models of practice. Do you see a future in which people understand enough about how their services are delivered and the challenges that councils face that they can engage in a genuine participatory budgeting process?

Jo Armstrong: That happens. It does not happen in the UK, as far as I am aware—not to the extent that you are suggesting, which would not be small beer.

We must think about the practicalities of making a participatory budgeting process work. First, we would need to get communities to engage in a way that gives us a chance to understand their desires and expectations for the quantum or quality of services. That in itself would be a step forward and we need more of it. Then, we could ask whether the money follows that. Communicating and engaging with people, and getting feedback from them so that we can understand their priorities, would enable us to challenge whether the money has followed people's expectations. If the budget did not follow that, it would be worth while to question it. However, I do not think that engagement automatically feeds through to participatory budgeting of the quantum that you are suggesting. I could be wrong.

Derek Yule: It would be incredibly difficult to do, which, in itself, is not a reason not to do it. When you think of the scale—the size of councils and the number of communities that would need to do the same thing—the level of dialogue would be very labour intensive.

The other challenge is councils' statutory responsibilities. The biggest council service is education, which is driven to a great extent by national policy—there is very little local discretion. In some respects, social care falls into that category, with its needs-based assessment approach. I would question which areas of service communities can have a say in and how we prioritise those. Perhaps there is something in that.

However, we have identified that the councils that are performing well and providing the best value are the ones that are doing well with community engagement. A couple of reports in the past year have highlighted councils that have been doing very well with that; we will be taking an interest in how they take that forward. It is a challenge.

Blyth Deans: I have a wee bit more detail on that. Derek Yule mentioned the controller of audit's best value audit reports. That programme factors in an assessment of community engagement and of progress with aspects of the Community Empowerment (Scotland) Act 2015.

A couple of fairly recent reports illustrate some of that work. The May 2024 report on Falkirk Council noted that there had been progress with community asset transfers and participatory budgeting through the community choices programme. I will put the scale of that into context. As part of the programme, last year, the council received 23,000 votes on projects, and £900,000 was available for them. That goes back to Jo Armstrong's point about engagement still being on a small scale: those numbers sit below the 1 per cent target that the Scottish Government set for councils. So, there is more to be done in that area.

There was a controller of audit best value report in January 2024 on Dumfries and Galloway Council. Derek is right that there are examples of councils doing engagement well and that is one of them; it is an example of a council in which engagement with communities is part of the culture. One aspect of that is that the council prepares an overview of responses to consultations and how it has dealt with them and makes that publicly available. It gives people who responded to consultations a greater line of sight on what it led to and makes the engagement feel more real and meaningful.

As part of the process, the Accounts Commission makes findings on the controller of audit's reports. One finding in that case was to encourage Dumfries and Galloway Council to share good practice across the country. It is an important role of the commission to try, where possible, to create consistency across councils and share learning.

The Convener: That sharing of best practice is certainly a good thing.

Alexander Stewart, I believe that I inspired you to ask another question.

Alexander Stewart: You did, convener.

When we are trying to manage this process, we are all about the transformation of best value, good practice and value for money, together with the empowerment and engagement that you have talked about.

When it comes to ring-fenced money, that is sometimes allocated as a one-off or a special offer, and the money does not always get used because it might not fit the criteria of the local authority or area. That money sometimes disappears and is not used, which causes a problem for us in providing best value for money. Communities want to engage and to be empowered, but, at times, there seems to be an obstacle. My reading of the situation is that the obstacle is sometimes ring-fenced funding. Certain funding might not tick all the boxes that councils want, so they might have to use a different avenue or route to receive funding. I have seen that cause frustration in councils.

It would be good to hear your views on how we should resolve that situation, because, if we were able to unlock some funding, there would once again be more opportunities and more finance to use for communities' priorities.

Jo Armstrong: I fear that you are trying to drag me into a debate about whether there should be ring fencing. That is very much a political debate; it is not one for the Accounts Commission. We absolutely want there to be value for money and the best use of scarce resources, but if ring fencing has been a political decision it is legitimate to keep it. It would be for local politicians to argue with national politicians about why there needed to be changes for local political purposes.

The Convener: I thank the witnesses for joining us. It has been a very good session. We managed our time well and covered a lot of areas.

I suspend the meeting briefly to allow the witnesses to leave the table.

10:56

Meeting suspended.

10:57

On resuming—

Subordinate Legislation

Building (Fees) (Scotland) Amendment Regulations 2025 (SSI 2025/6)

The Convener: The next item on our agenda is consideration of a negative instrument.

As members have no comments on the instrument, does the committee agree that we do not wish to make any recommendations in relation to it?

Members *indicated agreement.*

The Convener: We previously agreed to take the next items in private.

10:57

Meeting continued in private until 11:29.

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