



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

LOCAL GOVERNMENT AND REGENERATION COMMITTEE

Wednesday 24 June 2015

Session 4

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LOCAL GOVERNMENT AND REGENERATION COMMITTEE
19th Meeting 2015, Session 4

CONVENER

*Kevin Stewart (Aberdeen Central) (SNP)

DEPUTY CONVENER

*John Wilson (Central Scotland) (Ind)

COMMITTEE MEMBERS

*Clare Adamson (Central Scotland) (SNP)

*Cameron Buchanan (Lothian) (Con)

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

*Cara Hilton (Dunfermline) (Lab)

Alex Rowley (Cowdenbeath) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Cathy MacGregor (Audit Scotland)

Fraser McKinlay (Audit Scotland)

Douglas Sinclair (Accounts Commission for Scotland)

CLERK TO THE COMMITTEE

David Cullum

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Local Government and Regeneration Committee

Wednesday 24 June 2015

[The Convener opened the meeting at 10:01]

Decision on Taking Business in Private

The Convener (Kevin Stewart): Good morning and welcome to the 19th meeting in 2015 of the Local Government and Regeneration Committee, which is our last meeting before the summer recess. I ask those who wish to use tablet devices or mobile phones during the meeting to switch them to flight mode, please; otherwise, they might affect the broadcasting system. Some committee members might consult tablet devices during the meeting, because we provide meeting papers in digital format.

We have received apologies from Alex Rowley.

Agenda item 1 is a decision on whether to take in private agenda item 4, under which the committee will consider oral evidence that has been received, and agenda item 5, on the committee's future work programme. Do members agree to do so?

Members indicated agreement.

Subordinate Legislation

Building (Scotland) Amendment Regulations 2015 (SSI 2015/218)

10:01

The Convener: The next item is consideration of SSI 2015/218, which is a negative Scottish statutory instrument.

Members have a cover note from the clerk that explains the regulations. As members will note, the Delegated Powers and Law Reform Committee had no comments to make on the regulations. As members have no comments to make on the regulations, are we agreed not to make any recommendation to the Parliament on them?

Members indicated agreement.

“An overview of local government in Scotland 2015”

10:02

The Convener: Agenda item 3 is an oral evidence session on the Accounts Commission for Scotland’s report “An overview of local government in Scotland 2015”. I welcome Douglas Sinclair, who is chair of the Accounts Commission for Scotland; Fraser McKinlay, who is director of performance audit and best value in Audit Scotland; and Cathy MacGregor, who is audit manager in Audit Scotland.

Before we move on to questions, do any of the witnesses wish to make an opening statement?

Douglas Sinclair (Accounts Commission for Scotland): Perhaps I could do so. Thank you, convener, and good morning.

The Accounts Commission for Scotland welcomes the opportunity to discuss its 2015 local government overview report with the committee.

For a number of years now, councils have had to cope with reducing resources, rising demand and ever-increasing public expectations. Our audit work tells us that councils have generally coped well so far. Until now, they have dealt with reductions in income largely by cutting employees, but that alone is not sustainable in the longer term. Councils will face pressures beyond next year on a scale that has not previously been experienced, as budgets are expected to become even tighter and demands on services continue to increase.

Many councils are now reporting a budget shortfall—that is, a shortfall between their projected income and their expenditure. Over and above the known reductions, the Conservative Government is—as members know—committed to reducing the deficit in the lifetime of the current Parliament. The Chancellor of the Exchequer will announce where the expenditure reductions are to be made in the emergency budget on 7 July and in the public spending review in September. They are bound to have implications for Scotland’s finances and, in turn, for Scotland’s councils.

In the commission’s view, councils need to have effective long-term financial plans to give them a good understanding of their finances and future pressures, and they need to identify all practical options for addressing those pressures and funding shortfalls partly by making better use of benchmarking data and increasing the involvement of service users and local communities in developing ways of improving services and helping to save money. The challenge for councillors is to make best use of the money that is available and to take difficult

decisions now to avoid storing up problems for the future.

Many changes are going on in council staffing, management and delivery structures, including the integration of health and social care and the continuing use of arm’s-length external organisations to deliver services. In the commission’s view, it is crucial that governance and scrutiny arrangements keep pace with all those changes.

Community planning and health and social care integration require a continuing focus on governance and partnership working, in which the responsibility for good governance is shared. That depends crucially on building a culture of trust between partners.

My colleagues and I are happy to answer questions.

The Convener: Thank you very much, Mr Sinclair. Does Mr McKinlay or Ms MacGregor wish to add anything?

Fraser McKinlay (Audit Scotland): No, thank you.

The Convener: I will move straight on to the report itself.

On page 29, there is a lot about consulting service users and communities. You feel that there is a need to involve those folks more in planning and delivering services. Could you give us some good examples of where that is happening and where it is not happening to the degree that it should? I know from my past experience—as, I am sure, do others around the table—that, when communities are involved, the decisions that are reached tend to be better.

Douglas Sinclair: Some examples are given in paragraph 57. Western Isles Council

“brought together views of communities and used them to influence decisions and develop services.”

In the Bainsford area, Falkirk community planning partnership

“is involving older people in developing new ways of providing services to help them remain independent for as long as possible.”

Perth and Kinross Council

“is facilitating work in communities where people who need social care services and their families are developing local services to meet their shared needs.”

All councils need to engage more with the service user as well as the community to find out about the experience of the service user in their journey in contacting the council and how that can be improved. Satisfaction surveys are useful, but their usefulness is limited, because if the council is the monopoly provider, for example on roads or

refuse collection, there is no alternative provider for the public to be able to benchmark the performance of their council against.

We would like to encourage councils to do more work in analysing the experience of the individual service user. That is particularly true in relation to the development of self-directed support, for example. How well does the council respond to someone who has applied for self-directed support? What has that journey of engagement with the council been like? Councils still have a fair bit to do in such areas.

Fraser McKinlay might want to add something.

Fraser McKinlay: Given all the work that it has done on the Community Empowerment (Scotland) Bill, which was passed last week, the committee probably knows as well if not better than we do that that legislation could mark a genuine step change in how engagement works. One of the things that we will be very interested in is the extent to which councils and other public bodies embrace that as an opportunity rather than grudgingly think that it is something that they have to do.

As well as the stuff in the bill on public assets, some of the provisions on participation are potentially hugely important in getting communities involved much earlier, not just in saying which option they prefer but in designing and being genuinely involved in co-production, to use the jargon. We will be very interested to see how the bill is enacted in practice, because it has the potential to make quite a significant change in this area.

The Convener: The report highlights good practice, as such reports always do; it does not really point out bad practice.

As we have gone round the country to discuss the Community Empowerment (Scotland) Bill and other aspects of our work, we have been to a number of places where folks have told us, "People will come out to speak to us about certain things, but they go away and seem to forget the views that we have given at those events." They do not feel that that is proper consultation.

Is that something that you have found in formulating the report and in your day-to-day work?

Fraser McKinlay: Do you want me to pick that up?

Douglas Sinclair: Okay.

Fraser McKinlay: There are many examples of communities that are very frustrated about that. We have spent a lot of time recently looking at the Castle Toward situation in Argyll and Bute, where there is a community that is extremely frustrated

about how that has gone. Equally in that case, we have a council that is clear that it made the right decision based on the facts that were in front of it and on wider considerations of best value.

The Accounts Commission has asked us in Audit Scotland to look at how the audit of best value is carried out. The discussion of community engagement and community involvement will form a bigger part of that discussion. When we read the best value guidance from 2003-04, it feels a bit outdated in what it says about community consultation. The world has moved on a great deal and expectations are very different now. The Community Empowerment (Scotland) Bill, among other things, has moved that agenda on. Our audit work has to keep pace with and reflect that fact. In the future, we will probably be more challenging when it comes to community involvement and will expect councils to start from the proposition, "Yes, you can do that unless there is a very good reason not to," rather than the other way round.

I know that some of the work that the committee has done picked up some powerful examples of communities feeling very frustrated at not being able to move through the machinery of councils as quickly as they would like.

The Convener: You mentioned Castle Toward. I do not think that anyone in this Parliament is unaware of that situation, because Michael Russell has brought it to the fore in recent times, including at this committee.

One thing that we have today that we have never previously had prior to a meeting is correspondence from members of the public about certain aspects of your work. All members have received an email from Aberdeen about public objection to unpopular investment decisions. I will read out what the folks who sent it have to say about that. They say:

"Currently, the public are involved in pre-application consultations for major developments and is consulted on all planning applications. Councils consult on major planning policy developments. Investment decisions are often communicated to the public poorly, often shrouded in secrecy claiming commercial sensitivity. This has led to a breakdown in trust between some councils and the people who elected them. Auditing bodies often fail to respond adequately and in a timely manner, with the potential for catastrophic effects to the nations built environment."

The question that they ask is:

"What can be done to restore the public's trust in, or respect for, councils and auditing bodies who consistently react dismissively to the public's objections to unpopular investment decisions for major projects and who seem to intentionally delay their response, or refuse to respond, to legitimate requests for information on how such decisions are reached?"

How would you respond to that, Mr McKinlay?

Fraser McKinlay: Clearly, we are interested in and committed to good governance and to the transparency of that. We need to be better at helping people to understand what our role is in relation to some of these big issues, because a lot of them are planning issues first and foremost. Big planning decisions in places such as Aberdeen are particularly controversial. It is important that people feel engaged, and some people in some of those cases clearly do not feel engaged.

Our engagement with that as auditors is something that we need to think through quite hard. At the moment, we are looking to put together guidance that will set out more clearly for people who write to us what our interests in such matters are and, indeed, what our limitations are as auditors in a quasi-judicial process such as planning.

We are certainly always very interested in issues of good governance and transparency. The Accounts Commission set out quite clearly in its overview report its expectations of councils when it comes to what good and transparent governance looks like.

The Convener: These folks have concentrated on investment issues rather than any planning issue in the questions that they have suggested that we ask today. I do not want to go into the planning situation, because that is not part of your work. However, I think that planning and investment issues sometimes become intertwined in folks' minds, and we cannot separate them and deal with them individually.

Obviously, the investment is a concern to these folks. You say that sometimes you do not relay back to people your reasoning for doing or not doing something. What is your response, Mr Sinclair?

10:15

Fraser McKinlay: I will just finish what I was saying to you first, convener.

We do that. I absolutely accept that we must do so more clearly and, on occasion, more quickly. At the end of the day, we are interested in what process the council has followed. If the correct process has been followed, it is entirely legitimate for local councillors to have made a decision to invest in some things and not in others.

Douglas Sinclair: I absolutely agree. The interest of the controller of audit and of the commission is in the process. Was the process comprehensive? Were officers' reports comprehensive? Were councillors given the full information? Were they given all the options that are open to them?

At the end of the day, we must respect the fact that people have elected the council. The council has a right to make a decision. Although some of the public may not like it, as long as the process has been thoroughly and properly followed, we must accept the consequences of democracy. Ultimately, if people are aggrieved, they have the option to stand at the next council election. That is how local government works. You will not satisfy all the people all the time.

As the controller has indicated, our interest as the commission is to ensure that councils have applied the principles of good governance in making decisions.

The Convener: I draw your attention back to what your report says about consultation and the fact that folk feel that they have not been consulted properly or had their voices listened to on the issue of investment. We are saying that, ultimately, the responsibility lies with the councils. I would not disagree with you on that point—I think that we all understand that—but, from your report, consultation seems to be sadly lacking in certain areas of councils' business.

Douglas Sinclair: I certainly take your point that, if councils are to engage in consultation with members of the public, they have an obligation to feed back their views on it and why they have taken a particular decision. They must complete the information loop.

As Mr McKinlay has indicated, in the next iteration of best value, we will look much more closely at how effective councils are at engaging with their local communities, what their feedback loop is and how they follow up on that. That is clearly an important part of the Community Empowerment (Scotland) Bill, and we will take that on board in our best value work.

Clare Adamson (Central Scotland) (SNP): I am sorry to focus on the issue in the beautiful city of Aberdeen, but it is relevant to today's news. Aberdeen City Council undertook a referendum and then rejected the result. I understand that the project that is being proposed in Aberdeen is a joint partnership, but that the council will be left holding the risk, should the hotel development not realise the projected income. I am trying to get a feel for what is happening, but not specifically in the Aberdeen context. What assessment of risk would you expect councils to carry out in undertaking such joint ventures on big projects?

Fraser McKinlay: That is a great question—that is absolutely of interest to us. I will try to respond in general terms. As the chair said, when such big investment decisions are made, our auditors would routinely look at the process that the council followed to get to that point, including its understanding of risk. When big investment

decisions are made—particularly when capital investment is being undertaken—our auditors would routinely look at the delivery of the capital plan. These days, we are increasingly finding that new and innovative funding models are coming through, which bring different kinds of risk. It is difficult to keep up with the different formats that there are.

The commission has made it clear that it is key for officers to ensure that elected members understand the risk that they are taking on when they make decisions. It is not for auditors to say whether a project is right or wrong, good or bad. However, in the risk assessment, we will ask whether they understand what the risk is and what mitigating actions they are taking to manage it. That is becoming increasingly complex in a world in which capital budgets have reduced significantly. People are looking for more innovative sources of capital investment and funding, which are becoming enormously complex.

The chair might want to say a little bit about the commission's interest in helping councillors—who already have a difficult job to do—to understand all that stuff, which is becoming increasingly complex.

Douglas Sinclair: Managing risk is one of the principles of good governance. We do not want councils to be risk averse, but they need to be risk aware—that is the really important bit. Mr McKinlay touched on the importance of ensuring that elected members have the necessary skills and training to understand what they are doing when they manage risk as part of their job. Because they are the custodians of public money and, at the end of the day, they have to make the decisions, they must ensure that they have the skills and competence to ask the right questions of their officers and get the answers that satisfy them.

Clare Adamson: The committee is very interested in other funding models and is considering pension funding at the moment. However, as you say, the models that we are talking about are new, so would you expect a council to seek expert external advice and legal advice if it uses one of those models for a type of project for which it has not used it before?

Fraser McKinlay: Yes is the short answer. Depending on what the project is and what it is for, bodies such as the Scottish Futures Trust would play a role. When officers and elected members consider approaches such as tax incremental finance, the growth accelerator model and other things that trip off the tongue, it is important that they understand what those are and what they are getting into. As the commission said in its recent report on borrowing, it is really important that they understand the long-term implications of the decision. They must understand what the decision

that they make today means for the commitment that they make over the next 25 or, in some cases, 30 years.

John Wilson (Central Scotland) (Ind): Good morning. At the top of page 6 of the report, the chair's introduction says:

“Councillors also need to assure themselves that there is sufficient capacity within their councils to deal with day-to-day business as well as manage improvement and change.”

How do elected members get sufficient information to allow them to make such an assessment? A number of years ago, when private finance initiative and public-private partnership contracts initially came out, many elected members relied on their officials to advise them about the establishment of such contracts, but if we had known then what we know now, we would never have signed up to many of them.

Elected members are the custodians of the council. They rely on the advice and information that they receive. How do we ensure that they get the best advice and information?

Douglas Sinclair: I will give a bit of context to that. One of the points that we make in our report is that councils have balanced their budgets by reducing their staff complements—they have spent something like £380 million on voluntary early retirement—and all the indications are that at least half of Scotland's councils will continue to shed staff. One of our concerns about that relates to the loss in capacity, particularly in services such as human resources and finance. That is a particular issue in smaller councils, where there might be one person who is an expert in housing benefits, for example. If that person goes, it is difficult to replace them.

As part of workforce planning, the chief executive is responsible for informing the council if he—or she—believes that there are shortfalls in capacity. If there are shortfalls in capacity, it is his duty to ensure that the council can gain access to the necessary expertise, whether that is from another council or the private sector. That is a critical factor. Workforce planning is really important to ensure that councils retain a balanced workforce and have the necessary capacity, particularly as the pattern of service delivery becomes more complex.

The day of the council being the sole provider of services has gone—the situation has changed dramatically. It is fundamental to ensure that the council has the capacity to monitor the changing pattern of service delivery. There is an obligation on the chief executive to ensure that he advises the council and that the council has the necessary skills and confidence to ask searching questions of its officers and ensure that the capacity is in place.

John Wilson: I return to the original question. How do we ensure that councillors are suitably equipped to ask pertinent questions of officials so that they know whether they are getting the best advice and information that is relevant to the decisions that they are making?

Douglas Sinclair: Let me come at this from a slightly different angle. It is fair to say that virtually all councillors do a very good job, but the world in which they live is much more complex than that in, say, 1975. I mentioned the differential arrangements for service delivery.

We have found in producing our reports that the take-up of training by councillors is incredibly variable. Most councils provide good induction training, but there is a question mark over how good continuing professional development is. It is difficult to imagine somebody being the chair of a finance committee unless they are financially literate. It is difficult to imagine somebody being the chair of an education committee unless they have a good understanding of education policy.

There is a debate to be had about how effective the training is for councillors, given that they are in charge of a budget of £21 billion and employ more than 200,000 people. Do we have unrealistic expectations of our councillors? Do we need to do more to ensure that they are properly trained? Nothing in the code of conduct requires a councillor to undertake training. There is no standard job description for councillors.

Mr McKinlay mentioned the best-value guidance of 2003 and the eight characteristics of a best-value council. However, that guidance is silent on the skills that councillors need to discharge their responsibilities; it just assumes that they are there. Local government is a big business and there is a debate to be had about how effective the training is.

Way back in 2008, the Scottish local authorities remuneration committee, which no longer exists, recommended that there should be a standard job description for councillors and that every councillor should have a training needs analysis and a personal development plan. I am not in any way demeaning councillors; I am trying to ensure that they have the skills, competence and confidence to do the kind of job that Mr Wilson is talking about. There is a debate to be had about how good that training is.

Two years ago, I think, the Accounts Commission published a report entitled "Roles and working relationships", which talked about the roles and relationships of members and officers. We will revisit that report to get under the skin of the issue and ascertain how effective training and development are for councillors.

John Wilson: Thank you for that response. I should have declared that I was formerly a councillor and that my wife is currently a councillor. I have some experience of what is happening in local government. I might be too close to a particular local authority, but I get a general feeling about what is happening in local government.

That takes me on to the next issue that I want to raise, which goes back to the chair's introduction to the report and the issue of scrutiny. You say that the chair of the audit committee should not be a member of the ruling group. We now have coalition groups in some local authorities. Recently, the chair of an audit committee of a local authority in central Scotland was removed. The ruling group came up with various reasons why the individual had been removed. However, it was alleged that the chair was asking a lot of awkward questions about a contract that the council had awarded. Has the Accounts Commission been involved in investigating the circumstances behind that?

Douglas Sinclair: Mr McKinlay will take the first part of that question and then I will come in.

10:30

Fraser McKinlay: We are very aware of the situation to which Mr Wilson refers. I asked the auditors to consider the contract issue and—as you are probably aware, given that it is on the front page of *The Herald*—that council's auditing governance panel is considering the matter today. We will be very interested to hear what comes out of that discussion.

I asked the auditors to look at the position of the convener. Their view, with which I am satisfied, is that the process was undertaken in accordance with the council's standing orders, so in a sense no rules were broken. However, I absolutely accept that there is a different question about the standing orders. As part of that work, the auditors looked at how other councils carry out such appointments and how people are unappointed—or whatever the word is—from committees. In most councils, that is a political process. In councils where there are party groupings, appointments are part of that process, and other councils have a process that ultimately involves the council agreeing to such things.

As Mr Wilson said—I am sure that Douglas Sinclair will talk about this point—the Accounts Commission's interest more widely is in the way in which bodies such as audit and scrutiny committees and panels are led and chaired, how those appointments are made and how people can be removed from those positions. We will be interested in that in the future.

Douglas Sinclair: In a world of coalitions and cabinets, good scrutiny is even more important. As Mr McKinlay said, it is for each council to determine the arrangements for appointing the chair of its audit committee. The commission's view, which is stated in paragraph 87 of our report, is absolutely clear: we believe that public trust in scrutiny and audit arrangements is much more likely to be achieved if the chair of the audit committee is not a member of the administration, if the committee has clear and wide terms of reference with adequate support to undertake its task and if the committee's members have the necessary skills and training to do their job. The commission's clear view is that councils should achieve that to ensure that the public have trust and confidence in the scrutiny and audit arrangements.

John Wilson: I will not get into a debate about standing orders, because there are issues about that and about how often standing orders are changed in some local authorities to accommodate the prevailing political mood.

On senior officers, Mr Sinclair referred to the chief executive of a council having an overarching role in ensuring that the appropriate people are in place and that advice and information are being provided. What training is the Accounts Commission involved in to ensure that we have relevant senior officers who can come through the council process to take on such roles? As you have said, in the past couple of years, some of the reductions in staffing that have taken place have been at the senior level. How do we ensure that the people who are being appointed to take on those tasks are suitably equipped to provide the best advice and information?

Douglas Sinclair: There is no one organisation that does that. Previously, the Scottish local authorities management centre at the University of Strathclyde was a breeding ground—that is perhaps not the right phrase—that provided an opportunity for potential chief executives to learn their craft. Part of the responsibility lies with the Society of Local Authority Chief Executives and Senior Managers to provide opportunities, through learning sets and so on, for potential and future chief executives to understand what the job is about.

There is also a case for revisiting the terms of reference for chief executives, given the world that we now live in. The job description of the chief executive is to be head of the paid service, but what does that mean in practice? What is the dividing line between the chief executive's responsibility to manage the council and the elected members' responsibility for policy on the one hand and scrutiny on the other? Where do we draw the line between policy and management

and decide the degree of independence that the chief executive has?

As I mentioned, in the world of coalitions, it is fundamental that chief executives do not lose sight of the fact that, although it is part of their job to help the administration—of whatever political colour—to implement its manifesto, they still have the wider obligation and responsibility to the council as a whole and should always act in the council's best interests.

John Wilson: Convener, I will let you move on to allow other members to ask questions. If there is time at the end, I might have a couple of other questions.

The Convener: I think that there might be time.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning, Mr Sinclair. In your opening remarks, you told us about the United Kingdom chancellor's budget proposals and the consequential impact that they will ultimately have on local government services. Has there been any impact analysis of the cut that is being handed down from the UK Treasury through the Scottish Government to councils? Has there been any impact analysis of where the cuts will hit hardest and what councils might be doing to address that?

Douglas Sinclair: Cathy MacGregor might want to contribute on that point. We point out in our report that, between 2010-11 and 2015-16, funding to English councils has been cut by 37 per cent. Figures from the Office for Budget Responsibility suggest UK cuts of 6.4 per cent in 2016-17 and of 4.9 per cent in 2017-18. I do not know whether there is any detail in that analysis on the impact of eliminating the deficit in the lifetime of the UK Parliament and what that would mean for the consequential for the Scottish block.

Cathy MacGregor (Audit Scotland): I am not aware of any impact analysis that has been done on that.

Fraser McKinlay: There has not been a specific analysis, but most people seem to expect that the national health service and schools will continue to be protected—in inverted commas. The history has been that that has been passed through the Barnett consequential to Scotland. Those things make up a bigger budget proportion in Scotland than they do in the rest of the UK.

In a sense, that is why the commission has been strong on councils doing their own long-term financial planning. We know that it is not perfect—they do not know what is coming in July or September, so it is not straightforward to do a three-year or five-year look—but that scenario planning is hugely important. Councils need to understand what the ranges might be. The cuts to local government so far have been in the order of

8 per cent. What would things look like if there were cuts of 10, 12 or 15 per cent in the future?

It is important for each local authority area to think about those issues in the context of its priorities and its local community needs. Decisions in Edinburgh might well be different from decisions that are taken in Moray about where to invest and potentially where to disinvest.

When the budget announcement comes over the summer, we will look closely at it—as many people will—and we will continue to think about the effect on all public services in Scotland and to look at how they respond. It is interesting that, in the past week or so, there has been quite a lot of media coverage about councils doing exactly that—they are looking ahead, beginning to talk about budget reductions that they will have to make and beginning to think about the hard decisions that will have to be made. That is why everything that we have talked about so far in terms of development and training of elected members and the quality of advice that members get will be even more important than it has ever been. Those members have been making hard decisions and there are even harder ones to come.

Willie Coffey: During my time on the Public Audit Committee, I had the pleasure of meeting Mr McKinlay several times and the subject of continuing progress towards more and more cuts for councils came up regularly, as did the question of how they could partner up and deliver shared services. I know that Ayrshire has a joint roads service and that good work is going on across Scotland, but when will it be time to assess whether that approach is working to deliver the efficiencies that we might have hoped for as a response to the continuing cuts?

The Convener: Who will go for that one—Mr Sinclair?

Douglas Sinclair: I am happy to answer. A huge investment of time and resource was made in shared services through, for example, the Arbutnott committee in the west of Scotland, but there have not been many tangible results in local government. It would be an interesting performance study by the commission and the Auditor General if they looked at the spend on shared services and what has been achieved.

Our sense is that councils have perhaps rushed too much to shared services rather than looking at the scope for reducing unit costs, because councils all provide the same services. The unit cost of collecting council tax varies considerably from council to council, from around £4 to around £14. There is more scope to look at that in the benchmarking families. If a council's cost is £11 and its neighbouring council's cost is £4, it could

ask why that is and look at whether it could simplify and standardise its process to match the cost of the best in class.

As a commission, we welcome the work that the Convention of Scottish Local Authorities and SOLACE have done to develop benchmarking families so that councils can ensure that every pound that they spend gives value for money. There is still a long way to go in drilling down and looking at ways to achieve further savings by reducing unit costs. Those savings could be as much as might be gained from shared services. That is where we want councils to continue to focus.

Willie Coffey: Do the greatest opportunities for efficiency gains lie in internal costs, as opposed to the shared services agenda?

Douglas Sinclair: I think that that is right. The back-office costs of councils, which concern the process of paying somebody's salary or paying a bill, vary enormously. It is important to get behind that and ask why that is. Councils need to continue to drive out inefficiencies and drive in savings.

Councils argue that they are all different, but they are not really. They provide the same services and do a lot of the same things, but at very different costs. There is an opportunity to become more efficient in back-office services.

Fraser McKinlay: Douglas Sinclair mentioned what is happening south of the border. It is fascinating to look at how local government is developing in England and in particular at things such as city growth deals. Glasgow now has a city growth deal and other cities in Scotland are looking closely at those.

Another interesting thing is that councils are becoming more entrepreneurial and looking at how they can generate more income as well as become more efficient. Particularly in the big urban and metropolitan authorities in England, that is being driven by the scale of the budget reductions that authorities are dealing with, which have been of a different order from those north of the border. Some authorities are being innovative about investing-to-earn strategies; they are investing money in projects—and in some cases in start-up companies—to generate a return that can be reinvested in public services.

We do not see much of that in Scotland yet, but we might see more of it—that depends on what happens to the financial position over the next few years. Risk inevitably comes with such innovation, as do capacity questions about how to do it. As auditors, we will want to keep a close eye on that.

Willie Coffey: My last question concerns the skills profile of councils, which Douglas Sinclair

mentioned. Having been a councillor for many years, I appreciate and fully support the point. Councils do a fantastic job with the resources that they have. If we ultimately achieve upskilling of local elected members, what impact will that have?

If a council is dealing with a diminishing budget there is a limit to what can be done. The profile of local elected members has not changed much over time; most are part time or semi-retired. An opportunity was missed some years ago to influence the type of people who might be attracted into local government, because the salary and remuneration for councillors did not move much. That is a tricky subject to get into because of public perception, but do you see it as a possible positive influence on the direction of travel for the delivery of local government services?

Douglas Sinclair: It is absolutely right that you get what you pay for. It is difficult to broaden the range of people who can stand for a council. People find it difficult to combine their responsibilities to their employer and to the council. They are entitled to reasonable time off, but what does that mean? There is no guarantee of adequate time off.

We need to look critically at whether the current arrangements, including remuneration, are adequate to ensure that the best possible people are attracted to stand for local government. It is a big business that is becoming ever more complex. As I said, there is a debate to be had not only about how effective the training is but whether the arrangements for time off work and what have you are adequate.

Willie Coffey: The time-off element is crucial; there is a lot of good talent, but people do not have the time to devote to the tasks that need to be carried out.

Douglas Sinclair: Absolutely.

10:45

Cameron Buchanan (Lothian) (Con): Good morning. You keep saying that there is a debate to be had on councils getting external advice, particularly on investment. Are you taking such advice?

Fraser McKinlay: Yes. The Accounts Commission produced a report recently on councils' borrowing and treasury management, and one of the key findings is that they are professionally run services in which all the councils have external advisers to help them with their borrowing and investment decisions. However, it is very much seen as an officer-led and officer-driven process. It is a kind of push-and-

pull thing—officers who get on and do the job well could do more to make it easier for councillors to be involved and to ask the right questions to help them to make decisions. Equally, councillors need to be more demanding and to ask for more information rather than just quite quickly putting through pretty significant decisions on the nod. Advice is being taken.

However, we looked at more traditional borrowing, so the Accounts Commission has asked us now to look at areas such as PFI and PPP, and at some of the more innovative forms of funding that we mentioned earlier. We think that that might be a wee stream of work for the next couple of years, which will also involve looking at how capital investment in particular is funded in other places. However, to answer your question, councils are pretty good at taking external advice on those matters when they need to.

Cameron Buchanan: You mentioned benchmarking. Are chief executives of councils benchmarked?

Douglas Sinclair: They would be subject to appraisal—they should be—within the council. That appraisal should involve not just the leader of the council but the leaders of all the political groups. It is often useful to have an outside person to facilitate the appraisal process. However, chief executives need to know how they are performing. The more interesting question might be the extent to which leaders of councils are appraised, but that is more an issue for individual political groups. However, it is good practice for a chief executive to be appraised by his peers and political masters, ideally with the help of an outside person. That is important.

Cameron Buchanan: Are chief executives being appraised?

Douglas Sinclair: I think that they are, generally speaking, I think that good chief executives would welcome an annual appraisal because they want to know how they are performing, where they need to improve and whether their relationships with the leader, the convener and the leaders of other groups are effective, and whether there are issues that need to be resolved. Appraisals should be welcomed.

The Convener: Okay—but is there no comparing and contrasting those appraisals afterwards through the benchmarking format that Mr Buchanan asked about?

Douglas Sinclair: Bodies such as COSLA say that they are not in favour of league tables, but I think that it is a myth that councils have no interest in them. Councils are very competitive with each other and want to be the best—and so they should.

Clare Adamson: I have just a couple of points to make. I, too, served as a councillor, and you will probably be pleased to know that the council in which I served offered a personal development plan and training opportunities to councillors. One opportunity that I took was for board training, because I was being appointed to one of the council's trusts. It was made very clear in that training that when I entered the board of the trust, I would be responsible solely to the board. We are now seeing ALEOs being set up for roads and all sorts of areas in addition to what they were mainly provided for initially, which was leisure trusts. Do you have concerns about councils losing democratic accountability for delivery of services through the use of that model?

Douglas Sinclair: No, because at the end of the day the council still has responsibility for the quality of the service and for use of any public money that is invested in the ALEO. However, it is really important that councillors who are appointed to the ALEO understand their role, which is—as you rightly said—to pursue the best interests of the ALEO. Councillors have at the same time to balance that with the fact that they are still councillors and there is a monitoring role for the council to play. One of our concerns is about the danger of councils setting up ALEOs and just forgetting about them; it is really important that councils monitor the performance of ALEOs to ensure that they are delivering the objectives that the councils set in the first place.

I should perhaps have made the point earlier that good-quality councillors can make a real difference. One of the points in our report "School education" was that the councils that perform best on attainment and achievement are those in which the councillors play an active role in setting clear targets to improve attainment and achievement, and which ensure that their performance is benchmarked against that of comparable councils. There is real added value from the voice and skills of councillors in holding officers to account and helping their council to improve.

Clare Adamson: I go back to your point about the variation in costs of delivery of service. This morning, Citizens Advice Scotland has produced a report that raises concerns about charging for certain services. Obviously, we have a council tax freeze. It can be argued that that tax had risen considerably above the rate of inflation over the period for which it was in operation—it went up by up to 40 per cent in some councils. The report says that burial costs have increased by 10 per cent in the past year at a time of wage restrictions and cost-of-living increases. The report also says that there is variation across the country. For example, the charge in the Western Isles is £649, compared to more than £2,000 in central areas. Do you have concerns about such variation, or is it

just down to councillors to decide the charging policy in their areas?

Douglas Sinclair: It is fair to say that councils rely on the income that they get from charges. I think that the overall figure is £1.3 billion, or something like that. It is a lot of money. To an extent, that is a consequence of the council tax freeze.

Some differences are understandable and justifiable; the cost of providing a service in the Western Isles could well be different from the cost in Edinburgh. However, I do not think that all the differences are justifiable. One of our "How councils work" series of publications was on charging. Councils need to be transparent about the reasons for charges, and to be able to justify them. They should not just pluck a figure out of the air. They should be able to justify the cost to their public and set out the background and the reasons for it.

There is quite a lot of concern that car-parking charges are a cash cow for councils. Councils could help themselves by explaining more clearly the cost of administering car parking and by setting out transparently whether the income from it goes back into the roads maintenance programme or just back into the central coffers. Councils could do more to explain to the public the rationale behind their charging policies. It is important that every council has a clear charging policy and explains it effectively to its public.

Cara Hilton (Dunfermline) (Lab): Sticking with the financial context, I am interested to know more about how the reduction in the funding allocation to local authorities compares with the cut from Westminster to the Scottish Government. Is the cut that is being passed on to local authorities proportionate?

Douglas Sinclair: I think that I am right in saying that the 8.5 per cent cut to local government up to 2013-14 reflected the 8.5 per cent cut to the Scottish Government.

Cathy MacGregor: Yes. The proportion is broadly reflected. It is difficult to totally disentangle the figures, but there is not much in it.

Cara Hilton: On a totally different question, the report talks about the growing population and the impact that it will have on council education services. Obviously, education takes up a high percentage of councils' budgets, at about 30 per cent—I think that the figure in Fife is about 45 per cent. How can local authorities prepare for the extra budgeting challenges that result from the growth in the number of children, particularly zero to five-year-olds? Local authorities have already had to consider possible cuts to the school week to address the issue. In the context of national policies such as the expansion of early years

provision to perhaps 30 hours a week, how can local authorities prepare for those budgetary challenges?

Douglas Sinclair: The short answer is that they can do so with a great deal of difficulty. As well as the increase in the school population, there will be a 25 per cent increase in the number of over-65s by 2037. There are pressures at both ends of the age spectrum, which emphasises the point that Mr McKinlay made about the importance of long-term financial planning to build in those factors, and to ensure that they are taken into account and do not come as a surprise. One of the concerns that we highlight in the report is the fact that 18 councils do not have long-term financial plans.

Fraser McKinlay: An interesting consideration is the starting point for discussions around some of those big decisions. I was speaking to a council chief executive recently who said that the council's budget for education in schools has reduced, but it was still spending £300 million a year. The starting point in that council was the senior team in the education department asking how the authority would, looking ahead over five years, spend £300 million on education, rather than asking how it would manage taking out £10 million a year, or whatever the amount was. I know that that is not easy to do, and it does not make the issue go away, but it raises an interesting question about the starting point and the outlook on such things. If we are seriously getting into a world in which we have to think quite differently about how services are delivered, the approach that I described is more helpful as a starting point than councils trying to figure out how they will manage a 5 per cent cut.

John Wilson: The more the witnesses speak, the more questions come up—

The Convener: You do not have many questions.

John Wilson: I know, convener—I agreed to stick to two, but I may raise other issues.

Going back to ALEOs, to which Clare Adamson referred, you say clearly that there should be democratic accountability. At a recent meeting in one local authority, councillors were making a decision about funding being provided to an ALEO, but nobody was clear about who could participate in the vote because so many of the councillors sat on the boards of various ALEOs. I know that work is being done on that. When can we expect the findings of that work to be released, and advice to be given to local authorities about who should be making decisions if they are sitting on boards of ALEOs at the same time as they are sitting on the committees that are dealing with those decisions?

The Convener: Who will take that on?

Douglas Sinclair: I am happy to do so. The commission had a useful briefing from Fraser McKinlay on ALEOs earlier this year. I will go through the list of actions that we agreed to undertake.

We have sent a letter to councils encouraging them to apply good practice more consistently across ALEOs, highlighting the importance of strong governance for ALEOs, particularly around minimising potential conflicts of interest, ensuring regular and proportionate monitoring, and including clauses for review and termination in funding agreements. We sent that letter to every council leader, every chair of councils' audit committees and every council's chief executive. We also sent a guidance note to external auditors to assist in their audit of councils' governance and funding arrangements with ALEOs, drawing particular attention to the practical guidance in the "Following the Public Pound" code. We agreed that, by autumn this year, we will undertake a review of "Following the Public Pound", in conjunction with an update of the definition of ALEOs to assist councils to apply the principles of good governance to the funding arrangements for ALEOs and similar bodies.

We also intend, through consideration of best value, to promote stronger consideration of ALEOs in our scrutiny work, particularly through the shared risk assessment, and to support training and information events for the local government community—for example, through seminars and conferences involving Audit Scotland, the Office of the Scottish Charity Regulator, COSLA and the Improvement Service, including reference as appropriate to the commission's earlier "How councils work" reports.

We have that area very much in our line of sight, and we recognise the importance of the issues. In 2012-13, the spend by ALEOs was £1.3 billion and they employed something like 25,000 people. They are now a permanent part of the public sector landscape, so we need to ensure that they are the subject of proper scrutiny and that members of the council understand their relationships with those bodies.

The Convener: Can we get a copy of the letter that you sent, Mr Sinclair?

Douglas Sinclair: Yes, certainly.

John Wilson: You mentioned chief executives, council leaders and the chairs of audit or scrutiny panels. I suggest that, in the future, you circulate such letters to all elected members to ensure that everybody in the council, and not just a select few, knows what is being said and can participate.

Douglas Sinclair: Okay.

John Wilson: I have a follow-up question that ties into the issue of best value. We have had some discussion on that; I refer the panel to my speech last week in the debate on the Community Empowerment (Scotland) Bill, in which I made the point that best value should be seen not purely in monetary terms but in social, economic and environmental terms for many communities throughout Scotland. When can we expect that reassessment, or revision, of the 2003-04 guidance on best value in relation to the work that has been done?

11:00

Douglas Sinclair: We believe that much of the 2003 statutory guidance is as relevant today as it was then and, as Mr McKinlay indicated, it has stood the test of time. A number of areas need updating—for example, we should have more focus on appraisal and scrutiny, and on other areas that have been mentioned, including engagement with communities.

We intend the next iteration of the best-value review—I will not call it “Best Value 3” or I will get into trouble with the controller—to be rolled out by May 2016. Interestingly, it will cover all 32 councils. The shared risk-assessment approach to best value has been welcomed by councils because it was proportionate and risk-based, but as a consequence, half of Scotland’s councils have not had a best-value review since 2005. That means that the public are not receiving assurance about how well, or otherwise, their council is performing. It is important to continue using the shared risk-assessment approach, and for best value to embrace all councils so that we can identify not only poor practice but good practice. May 2016 is our target date.

The Convener: Can we go through a few quick-fire questions and answers? There may be areas that we have covered to an extent, but perhaps not enough. Mr Sinclair, you said that only 18 out of 32 local authorities have a long-term financial plan.

Douglas Sinclair: No—I said that 18 do not.

The Convener: So, 18 do not have a plan—14 out of 32 do have a plan. That makes it worse. What are you and Audit Scotland doing to encourage local authorities that do not have long-term financial plans to get in gear and start formulating them?

Fraser McKinlay: Most councils consider the overview report, and a wee while ago we published a report on developing financial reporting, which mentioned that issue specifically. In all 32 councils our auditors will, as part of the annual audit process, encourage councils to engage in long-term financial planning. We

continue to bang that drum and to do what we can locally to ensure that councils do that.

The Convener: If councils do not do that, what powers are at your disposal to get them to see sense and produce a long-term financial plan?

Fraser McKinlay: There is the annual reporting process. Every year in September the 32 council auditors report to me, as controller of audit, and if councils continue not to plan for the medium and long-term, I can either raise the issue with the commission on an individual-council basis, or we could give it more prominence in the overview report. We do not have any sanctions to make councils do such planning—ultimately, councils have to make that decision, but there are ways in which we can increase the pressure if there is no movement.

The Convener: If you were a punter in a local authority that had no long-term financial plan, would you be worried about the situation?

Fraser McKinlay: I think that people should be worried but—this is important—not because of what auditors might do. It is important to have a long-term financial plan; that is why we should be worried about a council that does not have one, and not because auditors will give it a hard time, although that might help a bit.

The Convener: We have touched on benchmarking, and the committee has taken a great interest in the work that has been done on that thus far. Mr Sinclair mentioned local authorities and council tax collection costs. Is there anything that tells us that councils are taking cognisance of the benchmarking statistics that they are receiving? Do we have proof that actions are being taken to drive improvement?

Douglas Sinclair: Yes. The national benchmarking overview report 2013 states:

“The headline findings for Scotland as a whole are that councils have continued to make substantial improvements in efficiency and productivity so that the cost of delivering services has reduced while service output and outcomes have been maintained and improved.”

There is evidence that councils are doing reasonably well. There is a lot more that they can do, but the direction of travel is positive.

Fraser McKinlay: I know that there is a lot of activity. People are looking at benchmarking and using it, and the family groupings are getting up and running. You have already asked the Improvement Service and SOLACE for examples of what has happened as a result of that activity—that will be the key test. Over the past year to two years, we have built up the activities. The question now is this: where are we seeing—as the convener asked—the outcome of that, in terms of

practical service change? We are still waiting to see more examples of that.

Douglas Sinclair: It is worth making the point that in our consideration of best value we will look at that area in much more detail.

The Convener: The committee will certainly continue to look at that area.

I have a couple of questions on some of the other things that the committee has focused on lately. To what extent are local authorities and CPPs now focusing on outcomes when they plan services and take decisions? Is that situation improving?

Fraser McKinlay: The short answer is yes—it is improving. The most recent national report that the Accounts Commission and the Auditor General did on community planning said that there is evidence, certainly at local level, that a focus on outcomes is much more embedded than it was. There are good examples of local partnership work.

There is, however, a long way to go, especially in, for example, understanding finances and how to share budgets and assets. The Community Empowerment (Scotland) Bill has been important in that respect. People have been looking at not just council assets but public sector assets, and how they might be better used.

The focus is there. If you look back five or 10 years, you will see that there has been a real shift in how people operate, and that partnership and collaboration are much more part of the everyday work of councils and their partners. We have still to see the real benefit of that, in terms of service transformation and services being delivered in different ways.

The Convener: We touched earlier on Marischal Square and Castle Toward, and we have talked a fair bit about the Community Empowerment (Scotland) Bill. Are local authorities and CPPs ready for the bill and ready to devolve power to local people and communities?

Fraser McKinlay: That is the million dollar question. Cathy MacGregor will give me a kick for saying this, because it is not based on any evidence. With that caveat, my sense is that the people in councils are dead up for that devolution. At senior level, people think that it is a good idea. It is a very big change and it challenges quite fundamentally a very long history of how local governance has worked in this country. It comes at an interesting time.

Cameron Buchanan mentioned the debate; a big debate is going on—and it is still to progress—about what local governance looks like in terms not of structure but of the relationship between councils and communities. The Community Empowerment (Scotland) Bill is obviously part of

that, but we also have from last year the commission on strengthening local democracy, and the islands discussion is on-going. Those plates are continuing to move and shift. I really hope that councils embrace the bill. As I said at the start, there is an opportunity to improve outcomes and services and, potentially, to save some money, and there is an opportunity to get people engaged in that.

As auditors we are required to be professionally sceptical, as you know, convener. I suppose that that would be my position.

The Convener: Mr Sinclair—do you want to add anything?

Douglas Sinclair: The cliché is that a council that is closer to its community is closer to its needs, and that is very true. My slight worry—my niggle—is capacity. You have put a lot of new obligations on councils. Whether they have the capacity to take on those new responsibilities, given the reductions in staffing that they have had, is something that we will want to monitor closely.

The Convener: Okay. Are you ready for the auditing challenge in all this?

Fraser McKinlay: We are indeed, convener.

The Convener: Thank you very much for your evidence today.

11:09

Meeting continued in private until 11:38.

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