

25 October 2019

Edward Mountain MSP,
Convener,
Rural Economy and Connectivity Committee,
Scottish Parliament

By email: rec.committee@parliament.scot

Dear Edward,

Further Information Following Committee Session

Thank you for the opportunity to provide evidence to the REC Committee on Pre-Budget/Financial scrutiny on roads maintenance in Scotland. I trust that you found COSLA's evidence helpful in providing clarity on a range of areas of importance to Local Government on this agenda.

During the meeting, we agreed we would provide the Committee further information which we would set out in writing. Below I have sought to answer the point about road maintenance funding, as well as important context about the impact the structure of the Local Government budget has on this area.

Road Maintenance Funding

During the session, Mr Rumbles asked about whether there was "a notional allocation to local authorities for road maintenance". The overall General Revenue Grant is made up of an amalgamation of strands that together distribute funding between Scotland's local authorities. Although there is a Grant Aided Expenditure (GAE) line which refers to road maintenance, there is no direct relation between the Grant Aided Expenditure calculations which determine overall grant and the actual spending by Councils on roads maintenance or other GAE lines.

With the exception of specific ring-fenced grants, any funding allocated as part of the Scottish Government Grant to local authorities is subject to the local democratic decisions of a Council in setting their local budget in a similar way that the Block Grant from Westminster to Holyrood is comprised of various strands but it is then for the Scottish Government to determine how the overall pot is spent.

This is a principled and agreed position between Local Government and the Scottish Government which is reflected in the operation of GAE lines. The Committee will be aware that the overall amount or quantum of GAE calculations for roads maintenance and all other expenditure categories, such as Education and Social Work, have been frozen since 2007 when the Concordat was agreed between Local Government and the Scottish Government. Given the timescale that has passed since GAE quanta were frozen and the fact the structure of the Local Government Settlement has changed significantly since then, it would not be

possible or useful to use GAE allocation as determining even an indicative level of expected spend by a Council.

In terms of spend on roads maintenance, I wanted to take the opportunity to stress that COSLA does not collect detailed information on spending by Councils. This is for the very reason that decisions made by Councils on deploying funding are a matter of local democratic decision making and accountability. However, as set out in COSLA's initial submission to the Committee we do know that successive, challenging Local Government Settlements have led to reductions in spending on essential services such as roads, in order to protect services identified as of higher priority locally.

In this analysis, we rely on information which is available from a number of sources when talking about revenue spending having reduced year on year. We make use of the available public information, as well as having strong engagement with professional associations in the sector, along with any available independent review pieces. I know that a concern raised by the Committee was in ensuring an evidence-based approach rather than an approach based on anecdote. The sources which COSLA have used and have proved helpful are the Local Government Benchmarking Framework and SPICe.

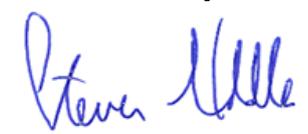
In our evidence we quoted that since 2010/11, spending on roads has fallen by 20% in real terms. This information was obtained from the Local Government Benchmarking Framework (page 80 of the National Benchmarking Overview Report 2017/18), which is managed by the Improvement Service in conjunction with SOLACE. All 32 Councils in Scotland are signed up to the LGBF and it is a valuable source of information on Local Government finances and public satisfaction levels on Local Government services.

We also quoted information from the Scottish Parliament's own Information Centre (SPICe) in our evidence which has provided invaluable information on the state of Local Government finances. We have worked closely with Financial Information Unit officers at SPICe and there is now a good body of information available. The Scottish Government now also helpfully publishes Workbooks on its Scottish Local Government Finance Statistics page. The most recent information is again for 2017/18 and contains for example a breakdown of the types of roads maintenance and expenditure on these.

I trust that this provides the Committee with answers to the question that Mr Rumbles has raised. It may also be helpful to stress that in our evidence I was seeking to make the point that the roads maintenance budget is under threat as it sits within the unprotected section of the budget. What I sought to make clear is that whilst roads maintenance is a statutory service, it is more exposed to potential cuts due to the fact that this budget sits in the unprotected section. More of the evidence that COSLA has provided on our concerns around the cuts to our core budget are made in the evidence submission we provided to the Local Government and Communities Committee. I am taking the opportunity to provide a fresh copy of this for Committee Members' information.

If I can be of any further assistance, please feel free to get in touch again.

Yours sincerely,



Cllr Steven Heddle
Spokesperson, Environment and Economy

COSLA Response: Local Government and Communities Committee

Pre-Budget Scrutiny: the Long-Term Financial Sustainability of Local Government

Key Points:

- Within the overall context of the National Performance Framework, COSLA has agreed four key priority areas for the upcoming Spending Review:
 - Inclusive Growth
 - Wellbeing
 - Tackling Child Poverty
 - Climate Change emergency
- Our message is clear - these areas cannot be addressed in isolation as they are deeply interrelated, recognising the complexity of the issues. A whole system approach is required to tackling these priorities and ensuring sustainable communities across Scotland. Local Government is uniquely placed to achieve this and the financial settlement for Local Government must reflect this critical role.
- Local Government budgets have decreased significantly over a number of years. In 2019/20, core revenue budgets fell by £147m while core capital budgets fell by £17m - this is not sustainable.
- Funding reductions, increased national priorities and protections have a fundamental impact on the ability of local authorities to invest in people, places and inclusive growth. Councils cannot achieve all we or the Scottish Government might aspire to achieve if the Scottish Government does not invest in Local Government.
- Going forward Local Government's core budget cannot be further eroded. Transparency around the budget is key and new Scottish Government commitments already announced for 2019/20 and 2020/21, currently totalling £480m revenue funding, must be *additional* to the current Local Government Settlement.
- Local Government has absorbed inflation and demand pressures – this is not sustainable. The gap forecast between income and the spend which will be necessary to fully address demand moving forward is deeply concerning. Over the next 15 years, social care funding alone will need to increase by 3.9 per cent in real terms each year to meet the needs of an ageing population and more adults living with disabilities, not to mention the unknown demands that Brexit will bring. Serious financial challenges lie ahead.
- Not only does Local Government require investment, it needs a longer-term financial planning horizon, protection of core Council budgets, and a focus on outcomes not inputs.

Introduction

1. COSLA welcomes the opportunity to submit evidence as part of the Committee's Pre-Budget Scrutiny. The focus on the long-term financial sustainability of Local Government is particularly welcome as this is an area of fundamental importance for Scotland's 32 local authorities.
2. In the Committee's call for evidence, the context set out is vital to the understanding of the landscape in which Scottish Councils now operate. **Resources have declined markedly in real terms while expectations have continued to grow at pace** – both in the Scottish Government setting national priorities which local authorities are responsible for delivering, and in the expectations of citizens in increased demand on access to quality services.
3. This has brewed the perfect storm where, without fundamental change towards sustainable funding, the Scottish Council of the future will not look the same or deliver the same services as the Scottish Council of today. Already communities are experiencing the impact of hard decisions that Councils have had to make about the services they deliver, with harder decisions to come.
4. This response sets out the vision of Local Government for what could be achieved if Councils are invested in. It sets these ambitions in the context of the challenges Local Government has faced, how these challenges have been addressed so far and the challenges to come.

Local Government's Vision

5. To ensure sustainable communities across Scotland, Local Government's unique role in designing and delivering the vital services which underpin and provide the lifeblood to communities must be recognised and invested in. The interrelated and collective impact of the everyday services delivered by Local Government directly affects all individuals and communities in Scotland.
6. Aligned to the National Performance Framework (NPF) and the core priorities set out in the Scottish Government's Medium-Term Financial Strategy, COSLA has agreed four priorities for its Spending Review campaign this year. The four priorities cannot however be considered or viewed in isolation and throughout this evidence we will stress these critical interdependencies. The four priorities are:
 - **Inclusive economic growth**
 - **Improving Wellbeing**
 - **Tackling child poverty**
 - **Addressing climate change**
7. Councils spend, plan, regulate, connect, educate, enforce, support, train and employ. Local Government is the only body operating across all the agendas that can impact on the lives of all our citizens and communities by coordinating the multi-faceted services they provide, tailored to the needs of individual communities and local authority areas.
8. To deliver on the NPF and the four priorities set out above, Scottish Government must choose to invest in Councils. Investment means no more cuts to the Local Government core settlement and putting fiscal measures in place to ensure individual Councils are empowered and autonomous to make decisions at the local level. In contrast, recent settlements have seen reductions to core local authority budgets and increased central control of how budgets can be spent. This is putting not only Local Government's vision

at risk, but the whole of the NPF and most importantly is impacting on the lives of vulnerable individuals and communities in Scotland.

Interdependences and whole system approach

9. COSLA is clear that the four priorities are inextricably linked, and this must be reflected in budget decisions. Local Government, with the right investment, is uniquely placed to take a “whole system” approach to tackle persistent challenges. For example:

- **Child poverty**

The Child Poverty Bill placed a statutory duty on Scotland’s Councils to work to address child poverty - in recognition of the fundamental role Councils play in tackling this issue – these additional responsibilities must be matched with adequate funding to allow decisions to be taken at a local level across **all** Council services to make a real difference.

We know children experiencing poverty tend to do less well academically than their better off peers. Understanding the importance of and implementing early learning strategies and continued learning in the home can greatly reduce the poverty related attainment gap. A ‘whole system’ approach not only addresses the poverty related attainment gap directly in the school but also outwith the school which is fundamental to tackling child poverty. An example of this where Councils across Scotland have shown great initiative is in providing holiday lunch clubs where in addition to a meal, family learning and links to wider services such as social work and advice services are key elements to tackling the root causes. Child poverty cannot be separated from family poverty and that is why tackling this agenda cannot be separate from tackling the other priorities of inclusive growth and wellbeing. This holistic approach to the design of services can only be achieved by Councils in their overarching role across a vast array of services.

- **Inclusive economic growth**

Locally, Councils establish economic strategies that work towards achieving national outcomes as well as responding to local challenges, ensuring that the economy is an integral part of how we build more sustainable communities. Economic Development teams are fundamental to creating a “step change” by supporting businesses to not only think about climate change and low carbon, but to think about social responsibility and community wealth-building. This local insight and influence is unique – not only do they piece together support from the more obvious areas such as planning, environmental health, Business Gateway, and Health and Safety, but they link to Education and Community Learning and Development to ensure that local people are ready for the opportunities that the economy presents. Councils also have a contribution to make as a significant commissioner of services and as a major employer in their area.

- **Wellbeing**

The promotion of wellbeing in Scotland depends fundamentally on effective and sustainable local services. Scottish society continues to suffer from inequality of health outcomes and we understand as a nation the need to shift towards early intervention and prevention to relieve the burden on the NHS. To do this properly requires investment in Local Government, allowing Councils to fund the sort of preventative community services that we know will have an impact on poor health outcomes such as the number of drug deaths or the prevention of suicide among our younger population. Wellbeing can only be achieved when local services have the capacity and local flexibility to respond to the particular needs of their communities.

Similarly, if we are to achieve the ambitions of health and social care integration and 'shift the balance of care' from acute services into the community, it is vital that the Local Government settlement supports the significant investment in social care we wish and need to see. As in so many areas, the services provided by Councils (and on our behalf by our third and independent sector) divert people away from other parts of the system such as acute hospital settings. An investment Local Government will therefore pay dividends across the whole system.

Similarly, a range of services provided by Councils can help those who have suffered from adverse childhood experience. At every stage of life, Councils are there to support individuals in ways that are tailored to respond to their needs – it might be support whilst at school or when leaving care, or support as an adult struggling to gain employment or sustain a tenancy. Council services span the range of support required to recover from trauma and valuable links exist with the third sector, housing associations and local employers that support wellbeing.

- **Climate change**

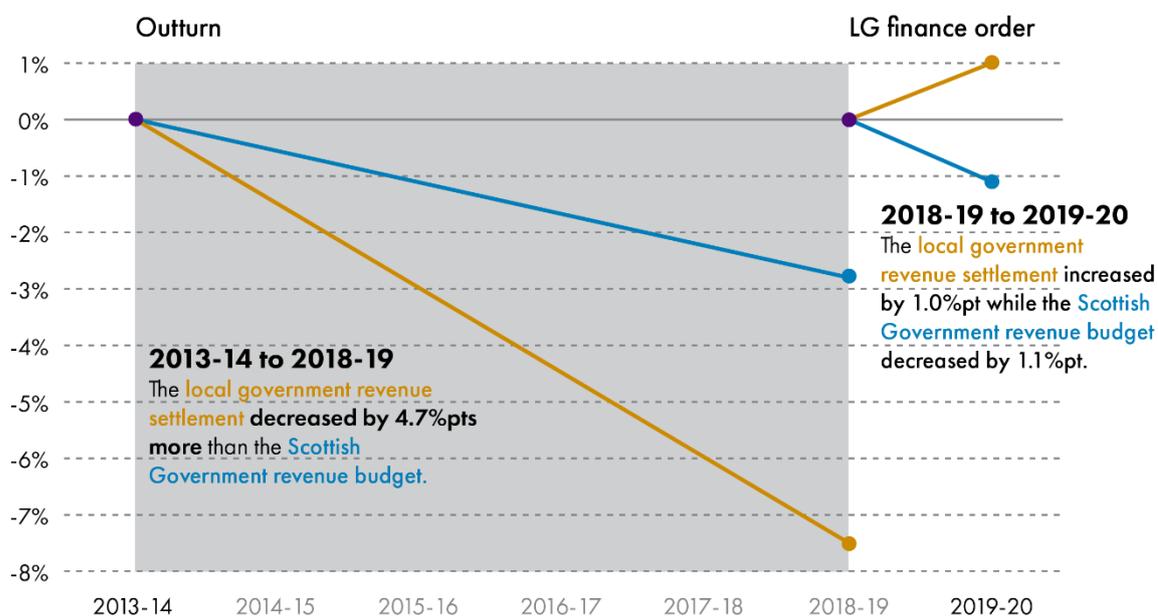
The unique reach of Councils across a vast range of policy areas will impact on Scotland's ability to have a carbon neutral economy by 2045 - from the businesses that Councils choose to support to the planning applications that are approved; from the types of houses and public buildings we build, to investment in sustainable public transport, roads and paths. This unique role has been recognised within the UN Paris Agreement when it is stated that **local action** is critical to success in tackling climate change.

Interrelated decisions about economic, planning, spatial and social policy will impact positively on the challenging targets but there will be tensions to work through that will require strong, consistent leadership and real empowerment. But investment in Local Government's critical leadership role is required to ensure a focus on the transition to a carbon neutral economy over the longer term, in a way that is inclusive and creates opportunities.

10. We cannot afford to look at the Local Government settlement narrowly. It must be viewed in its entirety to reflect the whole system approach that is required to tackle and address the biggest challenges facing Scotland and threatening the sustainability of our communities, the communities that Councils look after and invest in every day, of every week, of every year.

Current Financial Context

11. Local Government budgets have decreased significantly over a number of years. This fact will not be new to the Committee, but it is important to stress. As SPICe highlighted in their most recent report on Local Government Finance, between 2013/14 and 2019/20¹, Local Government has been passed a disproportionate cut in comparison to budget reductions the Scottish Government has faced:



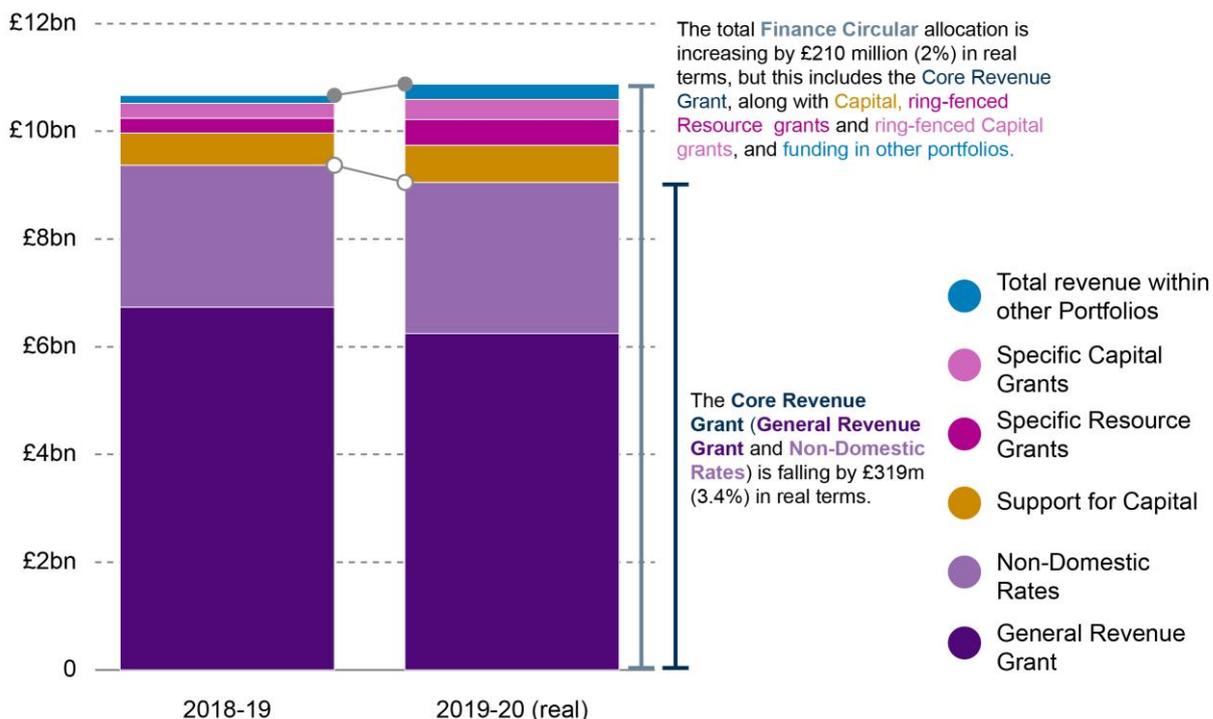
Source: SPICe

12. Over this period, Local Government's share of the Scottish Government budget has fallen from 34.8% to just 33%². **Although reported as a 1% increase for local authorities between 2018/19 and 2019/20, this was linked to new policy commitments and principally related to the ring-fenced funding for early learning and childcare** (discussed in more detail below).
13. Within this pattern of reductions, not only have local authorities been tasked with delivering an increasing number of Scottish Government priorities, Councils have absorbed the impact of inflation which last year alone was calculated to be £294m, as well as coping with increases in demand totalling £255m in 2019/20. As the Committee recognised in their invitation to submit evidence, Councils are undeniably doing more with less.
14. With these pressures, there is less and less resource available within core Council budgets to design and deliver the services that meet the needs of individuals and communities. One-year budgets mean that innovation and transformation is very challenging, as the focus is on meeting one-year savings targets and addressing new Scottish Government priorities and policies which command an ever-increasing portion of the Local Government Settlement. This can be seen starkly by looking at the increased ring-fencing within the Local Government Settlement, which places a great strain on core budgets. SPICe highlighted some of this impact in a recent report

¹ <https://sp-bpr-en-prod-cdneq.azureedge.net/published/2019/7/2/Local-government-finance--facts-and-figures-2013-14-to-2019-20/SB%2019-45.pdf>

² <https://sp-bpr-en-prod-cdneq.azureedge.net/published/2019/7/2/Local-government-finance--facts-and-figures-2013-14-to-2019-20/SB%2019-45.pdf>, Table 2

capturing the increase in Specific Ring-Fenced Grants over one year between 2018-19 and the 2019-20 Draft Budget³:



SOURCE: SPICe

15. However, this only represents a portion of the impact. **In the 2019/20 budget, national policies accounted for £400m of new commitments for Local Government.** Of these national policies, only the expansion of early learning and childcare was explicitly ringfenced within the Local Government (Scotland) Order and so only this policy is captured in the light pink section above.
16. Investment in integration (£120m (including £12m for Counsellors in Schools)), the implementation of Frank's Law (£30m), the Carer's Act (£10m), implementation of the Barclay Review (£3m) and delivery of free sanitary products in public places (£3m) were all new commitments for 2019-20 and yet all **£166m required to deliver these policies sits within the dark purple General Revenue Grant – local authority core funding.**
17. This is not to deny the importance of these policies but we must all understand the cost of this investment and the impact it is having on wider Local Government services. When new policies are not fully funded *over and above* core Local Government budgets, this results in cuts to other service areas, especially when demand increases over time, for example in areas such as social care.
18. This diagram from Audit Scotland⁴ captures the impact of new policy initiatives between 2018/19 and 2019/20:

³Note: SPICe figures are presented in real terms: <https://sp-bpr-en-prod-cdnep.azureedge.net/published/2018/12/19/Local-Government-Finance--Budget-2019-20-and-provisional-allocations-to-local-authorities/SB%2018-90.pdf>.

⁴ Audit Scotland, *Local Government in Scotland: Challenges and Performance 2019* https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_190321_local_government_performance.pdf, page17



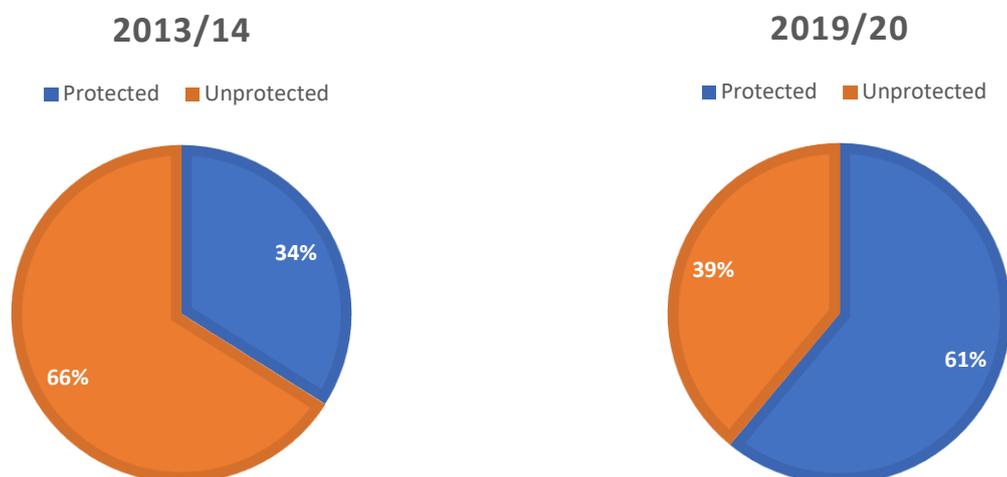
Source: Audit Scotland, Local Government finance circular 2/2019, Scottish Budget 2019/20

19. This infographic does not capture the impact of national policies which have accumulated over previous years and are still placing pressure on services (and in some cases significantly growing pressure) for example in relation to the provision of Continuing Care, tackling homelessness and Scottish Welfare Fund. Councils must deliver against these protected policies (and essentially earmark the funding to pay for delivery) from core budgets. The more national priorities there are, the less choice Councils have over the core budget that remains *after* these have been delivered.
20. This picture of reducing budgets and increasing national “asks” was a key message forwarded by Audit Scotland in their recent *Challenges and Performance* publication: “*Scottish Government revenue funding to Councils has reduced in real terms between 2013/14 and 2019/20, while national policy initiatives continue to make up an increasing proportion of Council budgets. This reduces the flexibility Councils have for deciding how they plan to use funding.*”⁵

⁵ Audit Scotland, *Local Government in Scotland: Challenges and Performance 2019* https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_190321_local_government_performance.pdf, page 6

Impact on Non-Protected Budgets

21. Protections within 'core' budgets continue to grow and when there is a cut in the Local Government settlement this has a real and significantly disproportionate impact on the services which fall within the 'unprotected' segment of Council budgets. In the 2019/20 budget, this had reached a point where 61% is protected with only 39% unprotected – a shift in balance even since 2018/19.



22. As well as the Scottish Government's approach of increasing ringfencing since 2013/14, another major reason for the shift from unprotected to protected budgets is the formation of Integration Joint Boards. Scottish local authorities are fully committed to health and social care integration and all that the vital partnership between Councils and the NHS can achieve. The much-needed financial commitment to health and social care should be made in a way that does not lead to the effective ringfencing/protection of the 'social care' budget at a local level and we hope to work with the Scottish Government to find a way to invest in IJBs without restricting the Local Government budget – particularly as the demand for services provided by Partnerships continues to grow at pace (discussed in more detail below). Much of the vital, preventative work undertaken and commissioned by local authorities which has a positive impact on health and social care outcomes does not sit within the delegated areas of authority of the IJB and there should be flexibility to channel funds locally depending on local schemes of delegation.
23. The impact of not having full autonomy to take budget decisions is clear. Councils have no choice but to take any necessary savings from non-protected areas and any cuts are amplified in these areas as a result. This fundamentally undermines local democratic accountability. A 2% cut in overall budgets becomes at least a 5% saving that has to be made from non-protected areas. There is a gearing effect of 2.5 times – whatever the cut is, this is magnified in the non-protected areas of the budget. These are the services which support wellbeing, infrastructure, the economy and the creation of sustainable communities. The evidence is clear that already the impact of reducing budgets has been absorbed in large part here and cuts are being felt this year across communities in Scotland.
24. Spending on libraries, sports facilities and museums have all reduced. Spending on roads has fallen by 20% in real terms since 2011/12. Employability and business support has fallen sharply – down 13% and 24% between 16/17 and 17/18 respectively. At the same time, charging has increased in an effort to maintain the viability of some services (up 7% in the last year alone). These are not savings and charges that Councils want to levy. Councils realise the impact that these measures have on

individuals and communities, but with limited resources these are the extremely difficult decisions facing local authorities across Scotland.

25. The National Performance Framework is put in jeopardy as a result of this balance. Local authorities deliver over 60% of the outcomes of the National Performance Framework. However, the services which contribute to the achievement of these outcomes sit predominantly within unprotected budgets meaning any cuts must come from the areas which make the aspirations of the National Performance Framework a reality.
26. **This perfect storm of reductions, national priorities and protections has a fundamental impact on the ability of local authorities to invest in people, places and inclusive growth.** Councils cannot achieve all we or the Scottish Government might aspire to achieve if the Scottish Government does not invest in Local Government.

Capital Budgets

27. While the above focusses on revenue budgets, the importance of maintaining core capital budgets cannot be forgotten. In the 2018/19 Scottish Budget, capital was presented by the Scottish Government as an increase of £207m but the reality for Councils was a cut of £17m (2%) once new commitments and the reprofiling of the £150m due back to Local Government were reflected.
28. **It is vital to protect core capital budgets for Councils** in the same way that it is vital to protect core resource budgets. Without capital, Councils cannot invest in roads, broadband, housing, and other key infrastructure, or maintain and build new buildings, develop and improve sports facilities, or develop school facilities. In fact, the Scottish Government's new Learning Estates Strategy of developing Scotland's learning estate relies on Councils as the sole capital investor for improving schools or building new schools. This is under threat when Councils do not have the capital they need.
29. The Committee may also wish to note that the Scottish Government has set out their intention to decouple revenue from capital budgets in the event of a 3-year Local Government Settlement. Even where Councils received 3-year revenue figures, Years 2 and 3 of Capital figures would not be announced until summer 2020 in line with announcements of the Scottish Infrastructure Commission. This is a significant concern for Councils as capital budgets cannot be divorced from revenue budgets. This undermines the ask Councils have made for multi-year settlements to maximise strategic spending when plans can only be finalised after all budget components are known.

Wider Impact of the Budget Structure and Process for Local Authorities

30. In addition to protections within the budget, COSLA has concerns around the current structure of the budget and budget process which have been highlighted to the Committee previously but are worth reiterating. The current budget structure and process are unsustainable:
- **One-year, short term budgets prevent long term financial planning.** The commitment made by the Cabinet Secretary at Stage 1 of the 2019/20 Budget to bring forward a three-year Local Government Settlement is very much welcomed by Local Government. However, we understand that even where a three-year revenue settlement is brought forward, announcements of years 2 and 3 of capital budgets will be delayed to fit with the Scottish Infrastructure Commission. This will cause significant issues for Councils who cannot fully plan revenue budgets without knowing what capital budgets will be.
 - **Initiative-led budgets are hampering the ability for collaborative working and longer-term prioritisation across public sector services.** This is especially where, as above, funds are ringfenced with strict reporting requirements which limits the ability of Councils to utilise resources in holistic ways across service areas. This diminishes the opportunity of local authorities to take strategic spending decisions across departments to design services that best meet local need, effectively undermining local accountability.
 - **New commitments funded on the basis of ‘working assumptions’, or incomplete evidence,** where no further opportunity exists to reassess costs and seek further funding, should those assumptions prove to be flawed.
 - **Reductions to core Local Government budgets** with no cognisance of the interrelationship between all that local authorities do to reduce inequalities, build community capacity, resilience and assets and decrease demand for services in other parts of the system such as health and social care.
 - **The practice of investing in ‘more’ and ‘new’ commitments,** without indicating what, out of the current budget priorities and statutory commitments can be disinvested in to accommodate those commitments as core budgets reduce or at best remain static in the face of increased demand.
 - **The continued focus on inputs not outcomes** despite a clear tone set by the NPF.
 - **A disconnect between the public narrative around the level of investment in public services, versus budget pressures and the need for service redesign so that public services can be sustainable into the future.** This makes dialogue with communities very difficult when the rhetoric nationally does not meet the reality locally.
31. To fully address these issues, there must be consideration of Local Government budgets in the round – moving away from siloed thinking. Policy ambitions rely on strong foundations, for example to achieve active travel goals there must be safe routes to schools and workplaces which cannot be achieved if grass is not cut through parks, cycle paths are not introduced and maintained, and school crossing patrols are cut. We need to shift the focus from inputs, particularly in the form of short-term initiative funding, to outcomes, where people’s lives are improved through the services delivered.

Responding to the Financial Challenge

32. Despite this challenging financial context, Scottish Councils have been continually praised for what they have achieved:

“Councils across Scotland have continued to work hard to maintain services to their communities, despite the increasing challenges and pressures. They have stepped up and have continued to improve how they use their resources.”

Audit Scotland⁶

33. There is evidence that Councils have prioritised frontline services and services targeted at the most vulnerable in society as efficiencies have been made to back office functions (typically central Local Government employees/functions). While back office functions have seen a reduction of more than 9%⁷, protections in services for the most vulnerable have seen reductions of around 2%⁸.
34. Councils have been leaders in achieving efficiencies and service redesign. Shared services have been pioneered and improved links have been established with wider organisations like the third sector in streamlining services to ensure against duplication.
35. However, as cuts have continued to be made, balancing service delivery with increased demand becomes more and more challenging. Councils are now facing extremely difficult decisions, not about cuts to be made to services but about **which services they may no longer be able to deliver**. Already hard decisions have been made and the harder decisions to come will have an impact on citizens across communities.
36. This has been compounded by recent one-year budgets which add to the uncertainty Councils face. Local authorities have been praised for their medium-term financial planning but with one-year settlements this work is undertaken in a vacuum of financial information.
37. Being truly innovative is also increasingly challenging in this context as innovation requires investment– in both staff and resource. Taking decisions about transformation programmes which span multiple years and may require upfront investment which is extremely difficult when funding for the next year is so uncertain. In addition, and as above, the roles of central Local Government employees essential the strategic planning required have been most impacted in decisions taken to protect frontline services. Councils need confidence in available resources to be fully empowered to continue as leaders in innovation.
38. **Councils need certainty around budgets to enable them to plan with certainty in the medium term**, and in turn to enter the transformation change programmes needed for fundamental service redesign in light of the financial context and the challenges to come.

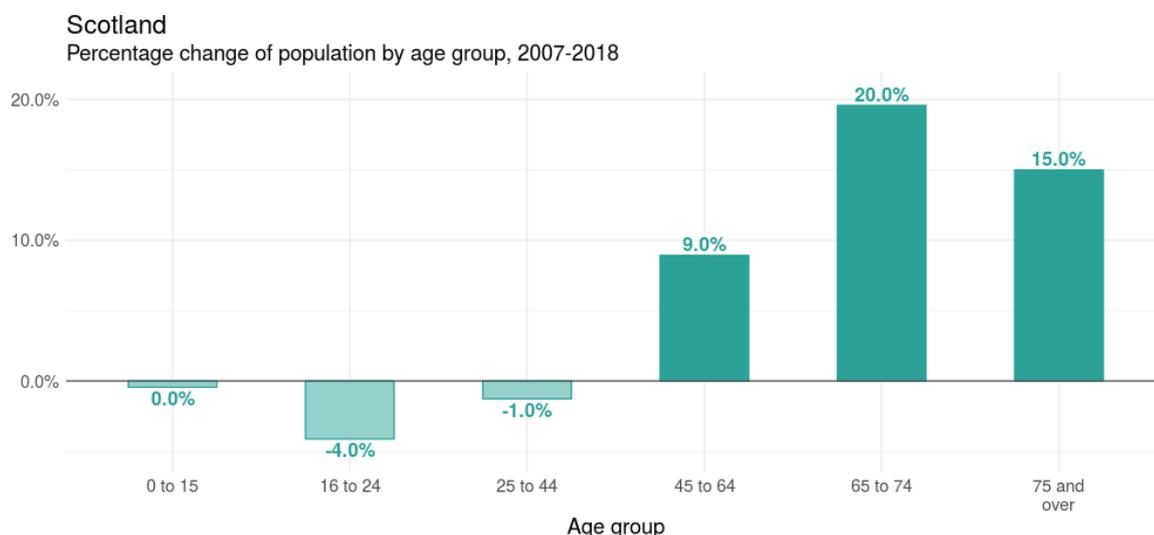
⁶ Audit Scotland, *Local Government in Scotland: Challenges and Performance 2019* https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_190321_local_government_performance.pdf, page 4

⁷ 17% in 2016-17 to 9% in 2018-19

⁸ As a proportion SPICe and University of Glasgow, *Pro-Poor or Pro-Rich? The social impact of Local Government budgets, 2016-17 to 2018-19*, <https://sp-bpr-en-prod-cdnep.azureedge.net/published/2018/12/7/Pro-Poor-or-Pro-Rich--The-social-impact-of-local-government-budgets--2016-17-to-2018-19/SB%2018-82.pdf>

The Challenges to Come

39. The changing demographic of Scotland poses the single biggest challenge for Scottish local authorities. Since 2007, there has been a significant upwards shift in the age profile of Scottish citizens⁹:



40. This trend away from the working age population is expected to continue in the coming years with all Councils expected to have a rise in the over-65 population by 2041. In some cases, this will be as much as 45%. Between 2020 and 2023 the over 75 population alone is expected to grow by around 48,000 people or 10.5%. This has significant, short-term implications for health and social care spend, as well as for services local authorities provide to this age group and planning must begin now for the longer-term trend.
41. In 2018/19, Councils budgeted £3.3billion for Health and Social Care – around a third of expenditure. Even with this financial commitment the focus of spend is on frontline services leaving little strategic capacity, and so the ability to undertake anything more than statutory functions, including preventative work, is extremely limited. The Institute for Fiscal Studies estimates that **over the next 15 years, social care funding will need to increase by 3.9 per cent in real terms each year** to meet the needs of an ageing population and more younger adults living with disabilities.¹⁰ This cannot be achieved without significant *additional* investment. In the Scottish Government's *Health and Social Care medium term financial framework* the cost of this was estimated to be £683m¹¹ but Councils believe this could be a conservative estimate.
42. Councils continue to be committed to Health and Social Care Partnerships within which we are joint partners with the NHS and these Partnerships will be a key plank in tackling the demographic changes. However, the services which local authorities themselves contribute to health and wellbeing in its widest sense cannot be overlooked. A home-care package which can allow an elderly person to be discharged from hospital must be supported by a package of measures which allow that individual to live a fulfilled life when at home. Councils maintain pavements as part of the public realm, provide local

⁹ <https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-estimates/mid-year-population-estimates/mid-2018>

¹⁰ <https://www.ifs.org.uk/publications/12994>

¹¹ <https://www.gov.scot/binaries/content/documents/govscot/publications/advice-and-guidance/2018/10/scottish-government-medium-term-health-social-care-financial-framework/documents/00541276-pdf/00541276-pdf/govscot:document>

public transport, maintain venues for community projects to meet. To that elderly person, this means an opportunity to engage with the wider community and avoid social isolation and loneliness.

43. Councils will have to respond not only to this changing age profile, but also to changes in the way people choose to live. By 2041, the number of households in Scotland is expected to rise by 13% but the population itself will rise by only 5% - i.e. the average household size will get smaller. This poses challenges for Local Government in the nature of the demand for services they provide – not least in the organisation of waste collection and recycling, the road network and public transport covering these new properties, and in providing facilities like schools which are needed in servicing new and expanding communities.
44. Other challenges on the near horizon which cannot be ignored include:
 - **Brexit** – There are potentially major implications from Councils not being able to continue to access European funds, staffing issues if EU citizens decide to return to their home country or mainland Europe and issues to manage in maintaining the supply of food and medicines. Additionally, there is potential for an increased reliance on social services in applications to the Social Welfare Fund and higher levels of foodbank use or homelessness. It is impossible to know what the full implications of Brexit will be but there are significant challenges which lie ahead for Councils. Key challenges currently include costs and resources surrounding Environmental Health Officers & Export Health Certificates which will be fundamental to European trade when the UK leaves the UK and which impact across all Councils in respect of trading standards, not just those with ports.
 - **Inflation** - This is a significant budgetary pressure on local authorities – particularly in contracted services. **Local Government in Scotland procure over £6.9billion of services per year** which makes an invaluable contribution to both local economies and the national economy. However, the uplifts in these contracts in line with inflation while still within the reduced funding envelope has put a significant strain on budgets. Even where the cash figure for Councils looks the same from year to year, inflation of between 2% and 3% means that the money available for frontline services is reduced.
 - **Pay** is the single biggest expense for Local Government. Across Scotland, **Councils employ around 250,000 people** (202,000 FTE) and in many areas are the biggest local employer. After successive years of pay restraint, agreements on uplifts in pay reached this year are positive for Council employees and will assist with the recruitment and retention of high quality staff but there is a significant onward burden to be carried by Councils in meeting the onward pay costs. When inflation is not built into the Local Government Settlement, there is an impact on services when money is required to meet the pay demand.
 - Linked to pay, **pension liabilities** are another substantial cost for Local Government and are not an area where Councils have overall control of rates. Over the course of this year, the employer contribution to teachers' pensions has risen by 5.2% - an impact of £110m across Scotland. Although the Scottish Government has contributed Barnett Consequentials for this rise for one year, this contribution only covered 2/3 of the cost with Councils having to make up the remaining contribution. This is a liability which Councils will carry from now and it is essential that impacts like this are reflected on an ongoing basis in the Local Government Settlement.

45. The unique leadership role that only Councils can play will be fundamental to addressing the challenges which they and Scotland as a whole will face. Councils need investment now so that the foundations are strong for tackling these challenges in the years to come.

Discretionary Taxation and Local Government Powers

46. In an environment of constrained public finance, there is a need for innovative approaches. COSLA has welcomed the commitment to discretionary taxation which came at Stage 1 of the 2019/20 Scottish Budget but it must be stressed that Transient Visitor Tax and Workplace Parking Levy are not the panacea.
47. By its nature, discretionary taxation will suit the needs and circumstances of some local authorities but not all. Throughout COSLA's argument for Transient Visitor Tax there has been a clear position by Councils that TVT should only be introduced following full consultation with local communities and businesses, *if the circumstances are right*. No Council wants to damage tourism or their local economy and so the introduction of any Tourism Tax will be a considered choice, not an automatic adoption.
48. Where Councils have already technically been empowered with additional powers, there has been a very real challenge to implementing these in an environment of constrained resource. A good example of this is powers afforded as part of the Community Empowerment Act which place an increased expectation on Councils. In a time of financial constraint, we have seen reduction in non-statutory functions such as Community Development, yet the Community Empowerment Act has increased expectation across Council services making implementation challenging. As a result, Councils cannot use the powers available to them because to do so requires investment and yet Councils do not have the resource.
49. Looking forward, the Local Governance Review provides an opportunity to create efficiency and effectiveness but only where subsidiarity is embraced and the three empowerments of Functional, Community **and Fiscal** are interlinked and focused across all parts of the public sector. Without all partners engaged and willing to share resource the review cannot provide transformative change.

Base Budget

50. As part of the budget process there have been varying interpretations of the Local Government settlement over recent years. COSLA has been clear that this analysis must recognise the impact on the core budget and that new Government commitments are fully funded. New commitments must not be funded at the expense of the core settlement, as has been the case in recent years, and the only way to evidence this for the upcoming settlement is to identify the base budget for Local Government. This has been set out below, which sets out the 19/20 settlement, less any one-off funding areas, plus funding for new commitments. An example of this is the recent teacher's pay round where Scottish Government agreed to fully fund a policy intervention for teachers. To ensure that this is funded a baseline must be clearly established. Otherwise funding is provided by one hand and taken away by the other.
51. At this point in time, taking account of the new commitments which Local Government have taken forward this year, the baseline which COSLA would expect the analysis of the 20/21 settlement to be set against is **£10.560bn of revenue funding, and £830m of**

capital funding. This is set out below. COSLA is happy to provide more detail to this should the Committee find it helpful.

Revenue		
2019/20 Settlement¹²	£10,078.35m	
Plus known new commitments as at 1 st September	Expansion of Early Learning and Childcare	£201m
	Scottish Government commitment to Teachers' Policy Intervention	£156m
	Teachers' Pensions	£104m
	Carers Act 2016	£13m
	Counselling in Schools ¹³	£4m
	Sanitary Products in Schools	£2.086m
	Appropriate Adults	£1m
	Community Justice Supervised Bail	£0.55m
	Seatbelts on School Transport	£0.23m
	Total New Commitments	£481.866m
20/21 Base Budget	£10,560.216m	

Capital		
2019/20 Settlement¹⁴	£1,084.210m	
Less one-off commitments or areas where funding came to an end	Early Learning and Childcare Expansion	-£175m
	Reprofiled Capital	-£150m
	Town Centre Fund ¹⁵	-£50m
Plus known new commitments as at 1 st September	£121m	
20/21 Base Budget	£830.21m	

52. These figures do not take account of the impacts of inflation or demand and so even at these 'flat cash' figures, core Councils budgets will be impacted.

¹² Circular 2/2019

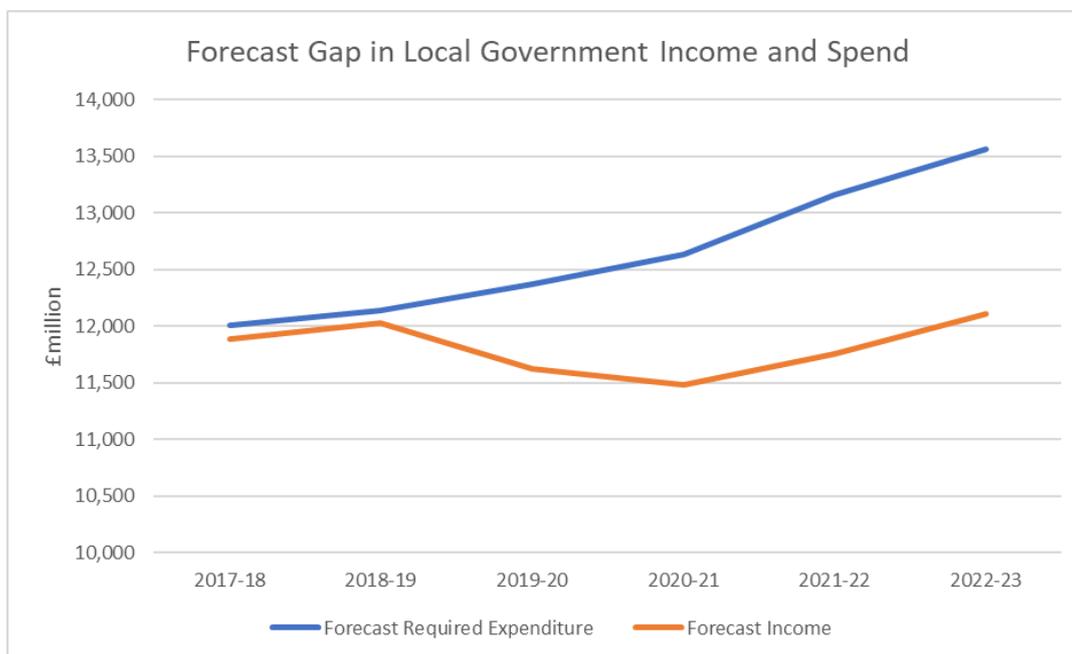
¹³ The full year cost for this policy is £16m, with £12m in the base for 2019/20 as a part-year cost

¹⁴ Circular 2/2019

¹⁵ One-off Commitment

Conclusion

53. Councils are continuing to face a serious financial challenge. The gap forecast between income and the spend which will be necessary to fully address demand moving forward is deeply concerning¹⁶:



54. This table factors inflation to both income and expenditure and so if Local Government Settlements do not account for inflation, this gap will widen further. Taking into account inflation (based on UK Government GDP [deflators](#)), and population change (based on NRS 2016-based [estimates](#)) the model forecasts increasing demand of £1.988 billion or 17.3% by 2022-23. There would be a requirement for an increase in spending even if local authorities were able to make major savings.
55. It is vital that the Scottish Government chooses to invest in Local Government in the upcoming Spending Review. Councils cannot absorb further cuts or further ringfencing without significant impacts to services, and it is communities who will feel the impact.
56. The services which Local Government provide touch on the daily lives of every citizen in Scotland. When Local Government funding is at risk, the future of services is at risk. If Local Government is not invested in, the ambitions we all share for Scotland will have to be reframed. Councils cannot continue to deliver new national priorities when the building blocks for these are crumbling.
57. Core authority budgets must be protected, and the structure of these budgets has to move away from national prioritisation and direction to allow Councils to best design and deliver the services which suit their local communities and circumstances. These budgets must come with certainty for the longer term, moving away from 1-year settlements to allow for accurate medium-term financial planning and meaningful multi-year transformation programmes. We have to move away from input measures and reporting towards measuring outcomes and be open and transparent in the public narrative about the need for service redesign towards sustainable future services.

¹⁶ Table source: Improvement Service. The forecast local government funding is based on the Scottish Government's medium term financial strategy. Forecast expenditure accounts for inflation and impacts of service demand.

Next Steps

58. Over the coming weeks, COSLA is providing a number of other Committees with evidence, focussed on the unique role of Local Government, the challenges faced and on the 4 agreed priorities. We will urge all Committees across the Scottish Parliament to consider their pre-budget scrutiny in the context of the overall Local Government Settlement as a focus on individual policy issues cannot be undertaken meaningfully in isolation from the part they play in the overall system.
59. As we move forward towards the Spending Review, we would welcome future engagement with the Committee on this vital topic.