Thank you for the opportunity to contribute.

Our report focusses on

- The positive response that councils have made so far to managing budgetary and demand challenges and
- Some points to consider for the fiscal role of local government

Managing resources effectively

The call for written views recognises that local government have faced formidable challenges across the last five years, but the response has been positive and councils have made significant savings while maintaining services and, in many cases, increasing the use of services. The 2017 Local Government Benchmarking Report highlights and evidences examples from across the many services that local government operates.

“Across the six-year period [2010-2016] for which we present data, total current spending by Scottish councils has reduced by 11% in real terms from £17.18 billion to £15.30 billion. During this time, councils have achieved substantial improvements in efficiency, innovation and productivity while service output and outcomes have been maintained and improved…”


The Accounts Commission’s 2017 overview report highlights the significant challenges that councils will continue to face whilst operating within the current environment and continuing to deliver services at Best Value. Budgets are likely to reduce by at least a further 10% in cash terms (18% in real terms) across the next four years as demand on major services will continue to rise. Equally, as the Accounts Commission highlights in its report, in addition to the financial, leadership, and demographic challenges, there are significant policy and legislative changes that will have an impact on the role of local government. Some of these changes, such as the Community Empowerment (Scotland) Act 2015, Education Governance Review, City Region Deals, Enterprise and Skills Review, for example, will require local government to consider alternative models of service planning.
Service redesign

The committee will receive evidence of the wide range of approaches that are drawn upon by councils to support identifying, prioritising and implementing their improvement efforts. These include:

- Improving Productivity and use of assets
- Maximising Revenue and Charging
- Digitisation
- Managing Demand
- Increased collaboration
- Major transformation programmes

that are implemented alongside budget and workforce reductions.

Many examples are brought together on the SOLACE/Improvement Service ‘Scottish Local Government Innovation Exchange’. http://www.innovationexchange.scot/. This site brings together information on many of the innovative projects being taken forward by Scottish local authorities. It allows local authorities to access and contribute examples of innovative projects and approaches, in order to share good practice and improve service delivery. Further examples are showcased and recognised as part of the annual COSLA excellence awards (see https://youtu.be/9AMM6OcDqVc ). Case studies and collaborative work on digitisation can be found at http://www.improvementservice.org.uk/myaccount-case-studies.html and http://www.digitaloffice.scot.

Learning between local authorities and between local authorities and other public services is active. The Improvement Service facilitates the online collaboration tool, the knowledge hub (KHub), on behalf of Scotland’s public services. (www.khub.net) There are over 600 groups and 30,000 members participating on the K Hub. This platform facilitates the online sharing of practice, learning, tools, approaches etc. between local authorities and between local authorities and other public services. For example, groups with over 500 members include people from local government working on Benchmarking, Digital Transformation and Change Management.

All of this demonstrates the effective positive action being taken by councils and their ongoing development and improvement. The risk is that these will not be sufficient to address the scale of challenge faced by local government across the foreseeable future. Inflationary and demand pressures mean that the opportunity and capacity to respond will be constrained. Difficult choices will be unavoidable. Equally innovative approaches that will have a medium to longer term impact on resource use (e.g. for a greater shift to prevention) will require investment that is challenging to prioritise and secure against the demands of sustaining current services.

Local Government Revenue Streams.

The research undertaken for the Commission on Strengthening Local Democracy indicated three core facts the Committee might choose to consider. These were:
(i) The countries with the highest ability to raise income through taxation were the countries with the most decentralised fiscal systems.

(ii) The countries with the highest decentralisation and the most empowered local governments also had the highest level of voluntary participation through civic society organisations and NGOs.

(iii) The most decentralised countries with the most empowered local governments had populations with the greatest confidence that could shape their own lives and outcomes.

Local financial and fiscal capacity is part of that, but governance structures and a culture of decentralisation are critical. Equally, reviewing local governance without enabling the fiscal capacity to make choices in response to local circumstances and preferences would miss the point.

Scottish local government is fiscally limited in comparison to European counterparts and that makes it highly dependent on grants from Scottish Government and therefore very exposed to conditionalities, ring-fencing, etc. Local fiscal reform has been on the agenda since 2007, and was the initial rationale for Council Tax freeze, but little has happened. The average local government in Europe raises over 50% of its income through local taxation. In Scotland, the figure is slightly over 20%.

The pattern of ring-fencing through grant allocation and conditionalities drives local prioritisation within and between services. (teacher numbers, attainment challenge fund, pupil equity fund, allocation of part of the care budget through the NHS budget, etc.). This results in a situation where councils have little control over how much they can spend or over how they have to spend it. Council tax has been frozen since 2007. This has been ended (with a 3% cap reinforced by grant conditionalities); but even if the setting of Council Tax was wholly freed up, and capping withdrawn, the “gearing effect” is so high as to restrict its use (a 10% increase would raise local spending by only slightly over 2%).

The deployment of specific grants (e.g. attainment challenge fund; pupil equity fund) is highly specified and regulated. Conditionalities within RSG (e.g. teacher number requirements) also require Scottish Government priorities to be adopted locally, as do conditional transfers from the NHS budget. The end result is a division within the current budget between “protected” service areas (e.g. Education and Care) and “unprotected” service areas (e.g. Roads, Regulation, Leisure and Culture). As the “protected” areas account for over 60% of the current budget, this has resulted in much higher cuts to “non-protected” budgets.

**Environmental and Regulatory services**

Schools and social care are likely to continue to be relatively protected, other services will face higher levels of budget reduction and this will raise issues about the
sustainability of current approaches and models, the capacity, resilience and quality in often small scale services, and the nature of local government finance.

Across the last five years there has been a (6%) real growth in Adult Care which contrasts with a (21%) real reduction in Trading Standards and a (26%) reduction in spending on local roads. Budget pressures have driven greater local integration to create local economies of scale, however, ‘Regulatory’ and/or specialist support capacities may only have the right economy of scale and skills at a regional or national level. Brexit will also generate new demand for regulatory services. Over a number of years work has been undertaken to explore future options for services such as trading standards and environmental health for 32 councils.

The challenge is recognised but there are systemic barriers to proactively putting in place a sustainable future. There are real challenges for local politicians, for example, to examine the value of such services now and into the future to local outcomes in isolation or to prioritise regulation over education or care.

There is a very proper “localist” critique to be made of ring-fencing, capping, etc. and others have covered this in their evidence to the Committee. The key link here is with local decision-making. The Local Decision Making review is to take place next year and needs to focus on the fiscal capacity that would make truly local decision making possible. This could include the return of the business rate to local control, devolution of income tax variation and empowerment, as elsewhere in Europe, to create and levy specific local taxed (luxury good taxes, tourism taxes, etc.). Although this latter category has attracted a lot of attention, “cappuccino taxes” are profoundly unlikely to bridge the gap with the European norm and would be very variably applicable across the 32 council areas.

Views have also been requested on charging and there is an intimate link between fiscal powers and the role of charging. As successive Audit Scotland Overview reports show, the balance of income from local taxation and from fees and charges has shifted markedly over the last few years. This is obviously connected to the Council Tax freeze and real reductions in grant and the consequent imperative to make savings and raise income from other sources. Some of this has been raising fees and charges already in place, some of it diminishing rights to free service, and some of it driven by “commercialisation” objectives, i.e. creating marketable and chargeable products and services for the public, other public authorities or the private sector.

The range, nature and level of fees and charges varies depending on an individual council’s scale, capacity and operating context. (For example, it may be easier to raise income from fees for golf courses or leisure centres with a more affluent population than with a deprived one.) The essential aspect of this is differentiating between core public services and services that have that dimension or history but are now seen as open to charging e.g. leisure services.
The core point is that charging is growing precisely because council’s lack the ability to raise necessary income through taxation because of their limited and controlled fiscal base. If “commercialisation” is not wanted, Parliament either has to increase councils’ fiscal powers, or their share of the Scottish Budget or both.

**Conclusions**

There are insufficient resources in the whole system to maintain current services and entitlements in line with demand. The Scottish budget has declined in real terms across the last five years and is currently projected to fall further.

Councils can and will continue to take effective positive action to meet local needs through effective service redesign and better use of resources. The risk is that these will not be sufficient to address the scale of challenge faced by local government across the foreseeable future. Non-protected services such as Roads and Infrastructure and local Regulation will be at particular risk at the point they are likely to be important to Scotland’s post Brexit offer.

The debate between local priority setting and national priority setting and conditionalities is perhaps misplaced. The focal debate should be about raising more or doing less, particularly given demand driven by demographic change. Reviewing local governance without enabling the fiscal capacity to make choices in response to local circumstances and preferences would mean a missed opportunity to enable the fiscal capacity that would make truly local decision making possible.