



31 October 2022

Kenneth Gibson MSP, Convener
Finance and Public Administration Committee
Scottish Parliament
Edinburgh
EH99 1SP

by email: FPA.committee@parliament.scot

Dear Convener,

Thank you for the opportunity to provide evidence to the Committee on 20 September 2022 as part of your pre-budget scrutiny on the subject of 'Scotland's public finances in 2023-24: the impact of the cost of living and public service reform'. I hope Committee Members found the session useful and constructive.

During the session it was agreed that I and my colleagues would follow up with further detail in a number of areas, including:

1. Shared services - examples of services being shared between councils, and any audit findings regarding savings achieved as a result
2. Core and 'ring-fenced' budgets - quantifying the extent to which core budgets cross-subsidise areas of policy-directed funding
3. Planning and building control - cases of councils which do or do not achieve full cost recovery through the fees that are set nationally

COSLA's Local Government Finance team has now set out the additional information below, for sharing with your committee members.

Shared services

As we have highlighted in our written submission and previously, Local Government has achieved significant efficiencies - including through shared services - for more than a decade in response to reductions in core revenue funding.

The Committee will be aware of national shared services such as those delivered via the Improvement Service - including the 'myaccount' digital identity platform, the National Entitlement Card, and the One Scotland and Street Gazetteers - as well as the SEEMiS education management information system. The Digital Office for Scottish Local Government, now part of COSLA, is also supporting and enabling councils across

Scotland with digital transformation, including national initiatives such as the switchover of telecare systems from analogue to digital technology.

The Improvement Service published a report in March 2020 presenting the findings of research to review the experience and incidence of collaborative working and shared service approaches across Scottish Local Government. The Collaborative Working Research Report (available from www.improvementservice.org.uk/research) was based on information gathered from 26 councils, which included 373 collaborative working or shared services activities (including 30 national examples), of which around two thirds were identified as being in operation.

Although not exhaustive and subject to some variation in interpretation and the level of detail provided, the research detailed a significant, varied, and growing set of activities, with shared-service approaches most common in the following areas (not including integration in health and social care):

- Roads, transportation and street lighting
- Emergency services / civil contingencies (including 'out of hours' cover, flood prevention and environmental protection)
- Regional economic development
- Trading standards
- Waste management and recycling

The report outlined the benefits, opportunities and challenges associated with existing and potential future adoption of shared-service approaches, and featured a number of detailed case studies, including the Ayrshire Roads Alliance, Renfrewshire Civil Contingencies Service and the Ayrshire Area Support Team.

The research and examples provided in the report and especially in the full survey returns (accessed via Appendix 1 to the report) demonstrate the large range and depth of collaboration and shared services arrangements that Local Government has been putting in place over the last 10 years, as a means of continuing to achieve the best possible outcomes for citizens, despite increasingly tight budgets.

The wealth of experience gained through these activities could be invaluable for informing future collaboration in other parts of the public sector, as set out in the Resource Spending Review.

Core and 'ringfenced' budgets

In our written submission to the Committee, we state (in paragraph 25):

"In addition, where costs rise for policy-specific funding, the core is plundered to meet the gap. This means core funding is constantly being squeezed..."

To illustrate this point, we cite the example of the expansion of Early Learning and Childcare (ELC) provision from 600 hours to 1140 hours; though funding has been provided for this expansion, provision of the first 600 hours effectively remains to be

funded from the core budget. With the overall cost of childcare provision rising, it is the core budget that is relied upon to fund both the initial and expanded elements.

Later in our submission (paragraph 44), we explain the impact of inflation via the example of the rising cost of food in schools and care settings:

"Without inflationary uplifts on the core settlement... funding originally provided for policy delivery such as free school meal commitments, and locked into the settlement, no longer reflects the actual cost of delivery."

These two examples illustrate how existing pressures on core funding resulting from real-terms cuts to budgets and rising costs of delivery due to inflation are exacerbated by the requirements of delivering policies for which directed funding is provided that also fails, over time, to reflect the costs of that service provision.

In many areas, annual funding provided for specific policies has not increased in cash terms for several years. One example of this is Self-Directed Support Transformation Funding - originally provided to assist councils with additional activity required under the Social care (Self-directed Support) (Scotland) Act 2013, including employment of additional staff. However, this funding has remained at the same cash amount since 2015-16 - a 20% reduction in real terms up to 2022-23. Consequently, core budgets have had to be used to supplement the Transformation element of Self-Directed Support funding, to deal with significant and growing demand pressures. Meanwhile, councils continue to be asked, on an annual basis, to account specifically for how they spent the Transformation funds (average £110,000 per council).

Planning and building control

The setting of planning and building control fees was raised during the committee session, initially in relation to potential future revenue-raising powers and flexibilities for Local Government. Concern was expressed about whether councils were recovering their costs through these fees, which are currently set nationally.

I am advised that no local authority achieves full cost recovery through these fees at present. Although we are not in a position - and neither would it be appropriate - to provide figures for each individual authority, the proportion of costs recovered varies from approximately 35% to 75%.

There is no one reason for the disparities between councils or the shortfalls overall, as it is a complex area with a variety of factors involved, but it is clear on the basis of these approximate high-level figures that if local authorities were granted the ability to set the fees locally, these could be structured in a way that better reflected the costs involved with delivering a high quality and sustainable planning system.

Further clarification

There were a few other points raised during the committee session on which we feel it may be helpful to provide some clarification.

Budget priorities

The Committee asked about the statement in our written submission (paragraph 40) that "from a human rights budgeting perspective, there is a duty to increase resources to achieve the further realisation of rights".

As the Scottish Human Rights Commission (SHRC) states in its submission to the Committee, governments have an obligation to maximise available resources, including considering resource generation, in order to deliver on people's rights. By contrast, as the SHRC points out, the 7% real-terms cut to Local Government's core revenue budget indicated by the Resource Spending Review will impact negatively on the many frontline services that deliver people's rights on a day-to-day basis.

Although the SHRC's submission focuses mainly on taxation, from COSLA's perspective giving councils greater freedom and flexibility in revenue raising will enable them to fulfil their human rights obligations through local decision-making and locally appropriate solutions - our submission cites the ability to set planning and building control fees and to introduce a 'tourist tax' as just two examples of this type of local autonomy.

The committee also asked about which policy areas or services COSLA believes should be deprioritised in order to focus resources elsewhere. This may have been prompted by paragraph 33 of our written submission, which states:

"There needs to be frank discussions across the public sector around what can and should be delivered, and what needs to be deprioritised or changed going forward."

Our submission goes on to explain some activities may not be as relevant now as when they were first introduced or legislated for. It was not our intention to indicate specific areas that should be deprioritised, as this would be for local determination; instead we sought to highlight that in the context of severe budget constraints, it is not feasible to expect to maintain all current activities plus deliver on the new policy commitments that are added.

More widely, COSLA believes there should be greater recognition of the opportunity cost of new policies, especially when they come at the expense of core funding, and that councils should be afforded greater flexibility to prioritise their activities and allocate their budgets according to local need and in the way they believe will achieve best outcomes.

Capital accounting

Finally, the issue of the planned Capital Accounting Review was discussed during the committee session. Although the Deputy First Minister has recently agreed to delay the upcoming review by 12 months, which is welcomed, COSLA's position remains that this review should not take place. Council Leaders have highlighted that a further review of capital accounting would bring significant risks and uncertainty at a time when the financial sustainability of councils is a key concern following last year's Capital Spending Review and especially in the context of current financial challenges.

In terms of the proposed Review itself, Leaders have expressed concern at the stated intention to deliver through the Review a phased approach towards alignment with the CIPFA Code of Practice for Local Authority Accounting. All councils already fully comply with the Code, which adopts all appropriate International Accounting standards. It is the

Scottish Government that has issued regulations superseding some standards, which rightly allows councils to set Council Tax and housing rents at a lower level that meets the real funding requirements of the actual cost of providing services.

These statutory mitigations are put in place to protect Council Tax payers and reflect the way councils are funded - there are significant risks to potential capital investment if current accounting practices relating to statutory mitigation are changed, which may mean less investment in roads, digital infrastructure, town centres, housing, schools and so on. Removal of statutory mitigation would also expose local tax and rent payers to a much higher level of volatility in annual capital charges to revenue and would create the potential of councils failing in their statutory duty to set a balanced budget, as the necessary tax increases may be unaffordable.

Setting Council Tax and housing rents at an affordable level whilst allowing councils to borrow is a key purpose of statutory mitigation. The suggestion that a phased approach could be applied to overcome any detrimental financial impact from the removal of statutory mitigation is especially worrying at a time when councils are being asked to reduce the size of their workforce in order to deal with inflationary pressures and a potential flat cash settlement meaning a real terms cut in core funding.

I trust you will find this supplementary information to be helpful but if you have any follow-up questions, COSLA officers would be happy to assist.

Yours sincerely,

Cllr Katie Hagmann
COSLA Resources Spokesperson