Local Government and Communities Committee
Call for Views on the Long-Term Financial Sustainability of Local Government
Submission from the Accounts Commission

1. The Accounts Commission welcomes the opportunity to respond to the call for evidence.

2. The Accounts Commission has a critical role in monitoring and holding local government bodies to account for their actions to ensure financial sustainability. As part of this role, we oversee the publication of annual audit reports on each local government body and are halfway through a programme of publishing Best Value Assurance Reports (BVARs) about each council. The Commission published its most recent financial overview of Local Government in Scotland in November 2018, and Local Government in Scotland Challenges and Performance in March 2019. The responses below reflect the Commission's findings reported in these two reports. The Commission will publish further overview reports in December 2019 and April 2020 respectively.

Question 1 - What are the big medium-term (5-year) and longer-term (10+ year) financial challenges for Scottish local authorities?

3. The Commission found that councils recognise the significant financial challenges they face in the medium term. Our reports have consistently referred to medium-term planning as covering a period three to five years and long-term planning five to ten years. In this context, almost all councils have medium-term financial plans, but less than half have long-term plans. The financial challenges councils identify over the next few years include:

- potential for decreasing revenue support grant and capital grant;
- demand pressures, particularly the expected population growth in some council areas and the reduction in the relative proportion of working age to non-working age;
- EU withdrawal and the risk of inflationary effects;
- pay award pressures; and
- legislative changes which are not funded.

4. Our work highlights that funding continues to be one of the most significant challenges for councils. Scottish Government revenue funding, the largest source of income for councils, has reduced in real terms since 2013/14. At the same time, national policy initiatives make up an increasing proportion of council budgets. This reduces the flexibility councils have in deciding how they plan to use funding. Demand for some core services, such as social care, are increasing due to a changing population profile.

5. Forecasts indicate further reductions in funding from the Scottish Government are likely in the medium term, resulting in continuing pressure on councils to make further savings, raise local income and taxes and find ways to meet demand for services more efficiently and effectively. This will require councils to make difficult decisions and to think innovatively.

6. In June 2018, the Scottish Government and COSLA launched their revised National Performance Framework (NPF). All councils signed up to the priorities and vision for Scotland it sets out. There is a strong focus on increased wellbeing, improving outcomes, and
economic growth that is sustainable and benefits all sections of society. Councils are key contributors to delivering this vision to improve the outcomes for the people of Scotland, alongside their community planning partners. Councils and their partners need to have regard to the NPF and consider how this framework fits with local decision-making, local outcome priorities and measures. For example, a core aim in the National Performance Framework relates to poverty: in our Challenges and Performance report we noted that the number of people living in poverty is gradually increasing and there has been a rise in income inequality. There are implications for councils from the increase in numbers of people living in poverty as they are more likely to need support from their council.

7. The integration of health and social care presents many opportunities but also some major challenges for councils. In November 2018, we published a report with the Auditor General for Scotland setting our progress with health and social care integration. The report which highlighted areas for improvement included financial management and planning. We reported that the majority of IJBs have underlying financial sustainability issues, and that without year-end support from the NHS and council partners, 20 of the 30 IJBs would have reported deficits.

8. We found that IJBs have significant funding gaps. Twelve IJBs did not have balanced budgets for 2018/19, and a further four planned to incur deficits which will they planned to meet through accumulated reserves. These financial pressures make it difficult for IJBs to improve services. We also found that IJB financial planning and financial management should be further improved; only a third of IJBs had a medium-term financial plan, typically covering three years, and there was no evidence of longer term-financial planning.

9. The Scottish Government published its first five-year financial strategy in May 2018, and updated this in May 2019. However, multi-year budgets have not yet been developed. Funding settlements continue to be provided on an annual basis, and the Commission have for some time highlighted that this makes it challenging for councils to plan and budget effectively for the medium term.

10. The Scottish Government's five-year financial strategy notes that change to funding through a combination of devolved taxes and the block grant brings uncertainty. This uncertainty at a national level is a factor for local government, particularly given such a significant proportion of its income comes from Scottish Government.

11. The medium to longer-term impact of changes to the Scottish Government’s financial powers and the details surrounding the local governance review are still unknown. Additionally, the impact of EU withdrawal remains unclear, but councils need to identify the risks and develop plans to manage these risks.

12. We continue to monitor and report in our overview reports the extent of financial planning in councils and the nature and scale of the financial challenges they face.
Question 2 - How effectively are councils addressing these challenges? Do councils currently have all the powers they need to do so?

13. The powers available to councils are a matter of national policy and therefore it is not appropriate for the Commission to give specific comment on these.

14. We have reported that 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. But, in many councils the change and improvement work has focused on efficiencies. To address the growing gap between demand and resources, more fundamental, transformational changes are needed in service provision. Through our Best Value and local audit work, we found that many councils are in the early stages of delivering transformational change. Most of the work within change programmes has been focused on service review and improvement, property rationalisation, and improvements in back office services such as human resources, payroll and finance systems. Some activity will have been more visible to the public such as digital approaches to customer services, increases in fees and charges, and redesign of waste management services. These changes alone are unlikely to be sufficient to address the growing gap between demand and resources. Councils will need to consider more significant redesigns of how they operate and deliver services.

15. In terms of maximising income, all councils increased council tax by the maximum 3 per cent in 2018/19; 12 councils increased it by the full 4.8 per cent in 2019/20. As revenue funding has fallen in real terms, council tax represents an increasing proportion of the total income available to councils. Councils are seeking other ways to increase income and we have noted the variation in how councils are approaching this. Many councils have made increases to fees and charges; some are making increases to all charges, some are making significant increases to selected charges and some are introducing new charges. Some councils are also seeking opportunities to raise local taxes, or they are considering developing commercial services.

Question 3 - What practical steps should councils take, and what good practice should councils adopt, to plan for the medium and long-term and to anticipate financial risks?

If you are a council answering this question, it would be helpful if you could clarify if you practice medium and long-term financial planning and outline briefly what form this takes.

16. Medium and long-term financial planning are important to enable councils to anticipate financial risks, and support consistency in financial decisions with corporate priorities and aims, as well as supporting transformation initiatives. In 2014, we published a report Scotland’s public finances - A follow-up audit: Progress in meeting the challenges. In the report we set out important features of a long-term financial strategy. These include:

- a clear understanding of the business model and the cost of individual activities within it
- evidence based options for achieving savings
- scenario planning to outline best, worst and most likely scenarios of the financial position and the assumptions used
- details of investment needs and plans and how these will be paid for
- an analysis of levels of service demand and projected income
• any income or funding shortfalls and how to deal with these
• clear links to the corporate strategy, community planning objectives and other relevant strategies such as workforce planning and asset management
• the risks and timescales involved in achieving financial sustainability.

17. The Commission has often commented that councils need a clear vision and strategic direction, that is aligned with their local partners. This helps councils identify corporate priorities. In our Challenges and Performance overview, we emphasise the increasing importance of medium and long-term planning to manage financial challenges and to help councillors to take well-informed decisions that are aligned to council priorities. Councils’ medium and long-term financial planning should therefore be designed with a focus on the corporate vision and priorities.

18. As noted under question 2, councils have made good progress in adopting medium term financial planning, but long-term planning is not as well-developed. We have also found that only around a third of councils use scenario planning within their medium or long-term financial planning. It is important that councils continue to consider potential funding scenarios and the implications for and options for transformational change in services in the medium and longer term. In recent BVARs we have referenced examples of good practice:

• Medium-term financial planning - BVAR North Lanarkshire Council (May 2019): Its medium-term financial plans are based on robust assumptions over a range of scenarios. Its five-year plan sets out the challenges facing the council in maintaining its financial sustainability, while striving to achieve the council’s strategic priorities and objectives. It recognises a range of risk-based assumptions that are presented over three scenarios: optimistic, envisaged and pessimistic. The plan includes the council’s financial projections for a total funding gap for the five years and how it plans to bridge these gaps from a combination of efficiency savings and changes to service delivery models.

• Long-term financial planning - BVAR South Lanarkshire Council (March 2019): The council has a good process in place for long-term financial planning. Future financial plans are challenging but the council is well placed to address projected funding gaps. The long-term financial strategy highlights that the council faces a challenging situation in the medium to long term because of reduced funding in real terms, rising costs and an increase in demand, particularly for social care services. This has caused predictions of future funding gaps, but the council is well placed to address them. It has a clear vision, and this is reflected in budget and operational decisions. The budget-setting process works well and supports elected members in agreeing the budget. There is a clear focus during the budget-setting process on how resources can be best used to contribute towards the 11 corporate objectives.

19. In recent years the Scottish Government has delivered annual budgets and funding settlements. This makes it challenging for councils to plan and budget effectively for the medium term, given such a significant proportion of their income comes from Scottish Government funding. Through its five-year financial strategy and 2019/20 budget process it has committed to move to a multi-year approach from 2020/21. This will be an opportunity for councils to further improve their financial planning.

20. In our Health and Social Care Integration Update Report (November 2018), we reported on a lack of integrated and long-term financial planning in health and social care integration
authorities and on the financial pressures faced by those authorities. This brings significant uncertainty for councils.

Question 4 - What alternative models of planning for, and delivering, council services (for example, joint working initiatives) could help local authorities make efficiency savings and/or deliver better services?

21. The Commission has consistently highlighted the increasing importance of good partnership working in the Scottish public sector. Working well with local partners in the public, private and third sectors is becoming increasingly important as councils try to deliver more for less. Shared services are one potential approach to partnership working. However, through our audit work we have only seen a limited number of examples of councils sharing services.

22. In our 2019 Challenges and Performance report, we highlight that to be effective transformational change must be well-scoped, address the needs of people who use services and should have proportionate governance structures. We note that there is scope for councils and other public bodies to share examples of successful transformational activity and learn from one another. To make good decisions about opportunities and options for change, councils need to ensure that they make effective use of good-quality information and data. This includes benchmarking with other councils and using performance information to identify and understand why performance varies across councils and where this offers opportunities to improve.

23. Effective leadership is fundamental to the successful implementation of change in a complex and changing policy landscape. Councils need to ensure they have the best possible political and management leadership. This means ensuring there is appropriate training and development to support both councillors and management. It also means that all councillors, whether in the administration or not, need to recognise their responsibilities for the effective operation of the council as an organisation that provides key services to the public. For senior management this also means building the best strategic team possible and ensuring there is enough capacity to lead change and wider responsibilities. Transformation is challenging and requires effective political leadership and communications, and it is essential that all councillors work effectively with officers and other stakeholders to identify and deliver necessary savings.

24. Effective use of community empowerment can contribute to change and transformation by generating ideas and by involving communities in the difficult decisions that need to be made about priorities and options. The Principles of Community Empowerment, July 2019, (prepared on behalf of the Strategic Scrutiny Group) emphasises that community empowerment is an important part of public service reform, focusing attention on reducing disadvantage and inequality and improving outcomes for communities. Community empowerment is central to a human rights based approach to policy and decision-making. Councils need to focus on how services are best delivered to communities and how they protect and empower the most vulnerable people. It is important that councils engage effectively and involve local communities as partners about plans for savings and service redesign. This also includes ensuring balanced and good quality performance information is provided effectively to communities.

25. Councils are using digital technology to drive improvement. Through the Digital Office (DO) for Scottish local government, councils are sharing their experience of using digital technology to
improve service delivery. Audit Scotland’s Principles for a digital future briefing sets out five principles that should be considered when planning and delivering digital programmes. However, digital approaches will often be only part of the solution. In many cases, digital can improve services and make them more efficient, but more complex or unusual tasks may require other approaches. Councils also need to recognise that not all service users will be able to access digital services. It is often the most vulnerable within society who have the greatest need for council services but who are least able to access them digitally. By enabling digital access to services for those who are able to use them, staff and funding can be redirected to provide other options, such as face to face or telephone contact, for those who struggle to engage through digital platforms or have more complex problems.

Question 5 - Are there any other issues relating to the long-term sustainability of Scottish local government which you wish to bring to the attention of the Committee?

26. Some councils continue to plan to rely on their reserves to bridge shortfalls in their budget position. We reported in our financial overview that councils had not yet relied on their reserves to an extent that risked their financial sustainability in the next two to three years. Across Scotland overall reserves have continued to reduce marginally, although we recognise that councils’ policies on use of reserves vary significantly according to the particular challenges and circumstances faced by each council. The cumulative scale of this over the medium to long-term is potentially significant to financial sustainability.

27. Over the longer-term, each council's borrowing position (relative to their annual income) is an indicator of financial flexibility. The "underlying borrowing" position takes into account whether reserves balances are cash or investments backed, or whether the council would need to borrow further over the longer term, to provide the cash to spend on identified spending commitments. Some councils already have relatively higher debt than others. Higher levels of debt also lead to higher annual costs of servicing this debt and councils need to ensure this is affordable. We continue to monitor the position on reserves and levels of debt closely through our local audit work and overview reports.

28. The distribution of funding from the Scottish Government is mainly allocated according to factors reflecting population levels, while other factors are far less significant influences on total funding. For example, factors reflecting levels of deprivation are linked to a much smaller proportion of funding than population level weighting factors. Given Scotland’s demographic changes and the Scottish Government’s commitment to tackling social and economic inequality, there is a risk that the Grant Aided Expenditure (GAE) weightings no longer sufficiently represent need. While we recognise that a review of funding distribution is difficult in times of reducing budgets, as there will inevitably be some councils that end up with smaller allocations of funding, we continue to believe that it is important that the Scottish Government and COSLA assure themselves that the funding formula remains fit for purpose.

29. Councils need to ensure they have the staff, skills and leaders to deliver change. This requires effective workforce planning across the organisation as a whole, but the quality of planning is inconsistent across councils. An increasing proportion of the workforce is nearing retirement. If there is insufficient succession planning, skills and knowledge will be lost as these people retire. Recruitment into some service areas is becoming increasingly difficult, and we have reported that national workforce data is insufficient to clearly understand how individual services areas are affected. Further, transformation of services will change required skills mix.
30. Change programmes and staff reductions, mean some uncertainty for council staff. Unless managed well, this could have an impact on the morale of the workforce and individual staff’s wellbeing. Councils should be aware of the impact on their workforce and put measures in place to address any issues. Common findings from staff surveys indicated people not feeling valued for what they do, not being asked for their views on change and feeling that working for the council had worsened in recent years due to workload.

31. It’s also important that councils ensure they have sufficient management capacity and leadership to deliver transformational change. Reductions in senior management have been a consequence of the need to deliver savings, but this could be at the expense of capacity to deliver the transformational change needed. The turnover of senior officers in the Integration Joint Boards is also an area that might affect the pace and delivery of transformational change in a key area of demand pressure. Are there any signs that turnover of CEOs in councils is increasing?

32. The Accounts Commission has a critical role in monitoring and holding local government bodies to account. Our powers in reporting on the duty of Best Value are a fundamental component of monitoring and challenging local government to continuously improve. In order to continue to improve our arrangements, and for the support of local government bodies, it would be beneficial to have updated statutory guidance for Best Value that better reflects the current context and policy landscape. Current statutory guidance is over 15 years old.

Accounts Commission

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