Dumfries and Galloway Council welcomes the opportunity to provide a submission to support the Committee’s pre-budget scrutiny into the long-term financial sustainability of local government in Scotland. Given the extent of pressures facing local government at a time when real terms funding has been substantially reduced, this scrutiny is well timed.

The Scottish Parliament’s Information Centre (SPICe) has produced a range of reports which have demonstrated the scale of reduction. In particular, we would draw your attention to Local Government Finance: Facts and Figures 2013-14 to 2019-20 (SB 19-45) published by SPICe on the 2nd July which shows a real term reduction of spend in Dumfries and Galloway of £155 per person living in the region.

In addition, we would like to draw your attention to SPICe briefing Local Government Finance: Budget 2019-20 and Provisional Allocations to Local Authorities published on 19 December 2018. This shows between 2013-14 and 2017-18 there was a 7.1% decrease (£744.7m) in the Local Government Revenue Settlement in real terms and that between 2013-14 and 2018-19 the Local Government Revenue Budget fell at a much steeper rate (7.1%) than the Scottish Government Revenue Budget (-0.8%). This document also provided funding comparisons for individual local authorities between 2018/19 and 2019/2020. This also highlighted that there was a fall in real terms funding, excluding ring-fenced grants. Dumfries and Galloway’s funding fell by 3.2% in that year. The Scottish average was 3.1%.

To put this in local context Dumfries and Galloway Council has had to agree savings totalling £77 million since 2013/14. Over the three years previous to this savings of £29 million were taken, making total savings of £106 million since 2010/11. This has led to cuts to vital local services and has impacted on Scottish Government priorities such as education and social care.

As reflected in the recent Best Value Audit, Dumfries and Galloway Council has managed to continue to deliver high quality services through a combination of efficiency savings and service reviews where possible. That work, alongside staff commitment and professionalism and political leadership, has to date allowed us to mitigate to a significant extent the impact of funding reductions on shared priorities. However, the challenges we anticipate facing over the next five to ten years if current trends continue are likely to be very substantial and our capacity to continue such mitigating measures will be limited.

As requested in the call for evidence, Dumfries and Galloway Council would respond to the questions identified as follows;
1. What are the big medium-term (5-year) and longer-term (10+ year) financial challenges for Scottish local authorities?

- Over both the medium and longer terms, Scottish local authorities face a range of financial challenges associated with the combination of communities increasing needs for services and the impact of anticipated further reductions in funding.

- The increasing cost of providing support and care to the most vulnerable in our communities is placing a consistently increasing demand on local authorities’ resources:
  - The increasing population of elderly people places an increasing demand on social care. In Dumfries and Galloway projections show that there will be a 48% increase in over 65s/75s. There are increased numbers of elderly residents with significant support needs and significant health and care requirements, living much longer requiring intensive levels of care over extended periods. Dumfries and Galloway has struggled to recruit the required personnel across health and social care services, even when the Council has worked within the local health and care partnership to secure the Scottish Living Wage for all social care workers. To meet demand, more attractive pay and conditions may need to be implemented, which will place even further pressures on local authorities funding for social care.
  - There has also been an increase in the numbers of children and young people with complex needs requiring intensive support, protection and care. Prioritising support and resources to children and young people with the most complex needs risks diverting resources from other service areas within education and social work services to cope with demand.

- The intensive nature and increasing cost of these services, alongside sustained reductions in real terms funding means that a consistently increasing proportion of local government funding requires to be applied to supporting a relatively small but significant and increasing number of individuals in our communities. This significantly reduces the funding remaining available for other services that support communities and other shared national and local priorities. The extent of decisions between competing priorities and need means that difficult choices are having to be made by local authorities on stopping some highly valued activities.

- Local authorities are also required to address the impact of inflationary cost increases and increasingly the impact of pay and conditions.

- Following a period of sustained public sector pay cap, recent public sector pay deals have recognised the value and the role of local authority employees. This does add a further financial pressure for local authorities, increasing the overall funding gap. For example, the recent SJC 3% pay award cost Dumfries and Galloway Council £2.8 million. The teachers’ 7% pay award cost £5.6 million; with Scottish Government providing specific funding to support the teachers increase of £3.954 million, which includes funding for the impact of the increase from 2% to 3% in 2018/19, plus the 2019/20 policy intervention.
• Local authorities also face increasing cost pressures in relation to the need for capital investment and increased annual funding to address backlog maintenance pressures in relation to key assets including roads and infrastructure, schools and other buildings essential for the delivery of essential public services. The 2018/19 Scottish Road Maintenance Condition Survey indicated that 47.8% (or 1,992km) of our Council’s local public road network should be urgently considered for maintenance treatment.

• In addition to increasing service needs, local authorities are required to deliver a range of additional policy initiatives. While monies are generally identified within funding settlements for these purposes, the accurate costing of policies can be challenging, and the ring-fencing of this funding reduces the monies available for existing core services. For example, funding of £566 million per annum by 2021/22 has been earmarked for the extension of funded Early Learning and Childcare provision from 600 to 1,140 hours. COSLA and Scottish Govt reached an agreement on delivering this policy but the extension of Early Learning and Childcare and any other Central Government policy should be funded in addition, and not instead of current services.

• The level of uncertainty associated with future funding levels also makes it more difficult for local authorities to effectively plan to address challenges over the medium and longer terms. Since 2013/14 (the last time a three-year funding settlement was announced) the Scottish Government has provided revenue and capital funding settlements for one year only. With Scottish Government funding contributing approximately 80% of net revenue expenditure, a medium-term funding settlement would allow local authorities’ to set realistic plans beyond the immediate term and would increase the ability to take strategic spending decisions across departments to design services that best address future service needs.

• The timing of funding settlements has a significant impact on local authorities’ ability to effectively plan services. In recent years the final funding allocations have not been confirmed until late as January or early February, giving local authorities little time to make fully informed budget decisions before the statutory deadline for budget and council tax setting. This is further complicated by the difficulty in aligning NHS and Council budget setting, making strategic partnership working unnecessarily complex.

• Wider economic and political uncertainty, including the potential impact of departure from the European Union, add to the difficulties facing local authorities when seeking to effectively plan to address medium- and longer-term service and financial challenges.
2. How effectively are councils addressing these challenges? Do councils currently have all the powers they need to do so?

- The achievement of significant efficiency savings through a range of measures, including increased digitalisation and reductions in corporate support functions, have mitigated the extent to which priority services such as education and social work have been impacted by the combination of cuts in funding and increasing service needs.

- As reflected in the recent Best Value Audit, Dumfries and Galloway Council has managed to continue to deliver high quality services through a combination of efficiency savings and service reviews.

- However, following an extended period of cost and efficiency reduction, local authorities are no longer able to achieve further reductions through similar measures and such reductions must increasingly be achieved through service reduction and prioritisation.

- To date, local authorities have largely been able to make cuts, or in some cases restrict these to, lower priority services, including corporate support functions. It must be highlighted that these cuts have had an impact on service delivery, communities and the economy. Going forward fundamental changes, reduction in services or complete removal of services will be required if the financial outlook remains unchanged.

- Dumfries and Galloway Council would welcome additional powers and additional tax raising powers such as those which would tackle empty commercial properties. However, local authorities would also benefit from the removal of some of the restrictions that are currently in place. Based on figures produced by COSLA, revenue funding to support specific Scottish Government policies increased from 6.6% of total revenue funding (£643 million) in 2018/19, to 12.1% (£1.2 billion) in 2019/20. In addition, Scottish Government conditions protect 58% of councils’ budgets from reductions. This means that cuts in local authority services have had to be absorbed within the remaining 42% of councils’ budgets thus significantly increasing the level of reductions applied to unprotected services.

- The extended period of the council tax freeze limited the ability of local authorities to reduce cuts to services. In the last three local government finance settlements a cap on the percentage increase in council tax has restricted the ability of councils to generate the funding required to support the delivery of essential services.
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.

- **Medium and long term financial and service planning** is a key practical approach that councils take to plan for the medium and long-term and to anticipate financial risks. Dumfries and Galloway Council has in place the following:
  - A 5-year Council Plan which sets out the Council’s key priorities and objectives linked to each of the Council’s main strategies.
  - A 5-year Financial Strategy which provides details on the financial challenges facing the Council over the medium term to support service and financial planning to allow these challenges to be addressed effectively.
  - A 5-year Workforce Strategy providing a framework for workforce planning to support the changes required to the Council to address service and financial challenges.
  - A 3-year Revenue Budget Plan which ensures that resources are aligned to the achievement of key priorities and sets out the measures to be progressed to achieve any savings required.
  - A 10-year Capital Investment Strategy which establishes a prudent, affordable and sustainable set of capital plans directing available resources at key investment priorities.

These strategies and plans are jointly aligned and integrated and are a key element of the Council’s approach to future planning and addressing financial risks.

- **Prioritisation of services to achieve required savings** needs to be a key element of local authorities’ approaches to addressing challenges. Given the level of available funding, local authorities cannot continue to seek to provide the range and level of services previously provided. Local authorities are being clear with the public about the extent and implications of the challenges faced and recognise that significant service reductions are necessary to allow priority services to continue to be delivered.

- In recent years the Scottish Government has provided revenue and capital funding settlements for one year only. With Scottish Government funding contributing the largest part of local authorities funding, the lack of medium-term funding settlements makes it very difficult for local authorities to set realistic plans beyond the immediate term and reduces local authorities’ ability to take strategic spending decisions across functions to design services that best address future needs. A return to the provision of Scottish Government funding settlements covering a three-year period, as is the intent of the Scottish Government for the next settlement announcement, is a key measure that will assist local authorities in their medium- and longer-term planning.

- In these circumstances, an important approach that local authorities need to take is enhanced scenario planning based on a range of potential options in
relation to both funding levels and service needs. This is an essential approach to seek to anticipate and prepare for potential challenges. The extent of uncertainty and variability associated with plans, particularly in relation to the level of Scottish Government funding to be made available, can undermine the credibility of the plans produced, particularly with elected members and the public. Good data and information to support scenario planning is critical to this.

- A key element of seeking to minimise and manage medium to long-term risks is to focus on early intervention and demand mitigation measures to seek to reduce the need for more expensive services and support at a later date. Consideration should however be given to the extent to which funding reductions have led to a reduction in investment in these areas. At a national level, the focus of increasing funding support for the NHS while reducing funding for local government reduces the extent to which councils can provide services, which may increase demand for more costly health interventions at a later date.

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?**

- Alternative models of planning for and delivering council services are one response to the funding reductions experienced by local government at a time of increasing service needs. Whilst we are committed to the principles of community empowerment, we also recognise these models will be necessary because local authorities can no longer afford to provide the range of level of services they did previously. A greater role for partners, in particular third sector organisations and communities themselves, is necessary to continue the delivery of services which communities continue to value but which councils may no longer be able to provide as resources are focused on core activities.

- Dumfries and Galloway Council has established a comprehensive, Member led Transformation Programme designed to deliver new operating models for service delivery with staff and service users, along with communities, at the heart of its design. The main themes of this transformation/modernisation process are:

  - Sustained focus of resources on the Council Plan Priorities of our economy, children, vulnerable people and sustaining our communities
  - Transform our customer experience and improve our digital offer
  - Modernise how we deliver some services to meet our outcomes
  - Maximise use of fewer assets, working with and within communities
  - Develop a smaller more flexibly skilled workforce for the future
  - Maximising our income and underpinning fairness through targeted concessions

- Partnership working with other public, private and third sector organisations, as well as with our communities, is also a key element of our approach. In helping
communities achieve their ambitions some outcomes will have to be delivered by other organisations and by local communities themselves. Further structural alignment of public bodies within a community or place could also provide improved transparency of expenditure and decision making.

- Alignment of Council and NHS budget setting, ahead of the start of the financial year, would assist greatly in joint working between organisations and more effective planning.

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?

- An important element of assessing the long-term sustainability of Scottish local government relates to reassessing the future role of local authorities in delivering public services and seeking to improve the quality of life within Scotland. The extent to which real terms funding for local government services in Scotland has been reduced in recent years is resulting in a significant change in the role of local authorities.

- The Scottish Parliament has seen an expansion of its powers since the first Scotland Act. However, there needs to be more consideration of more powers being devolved at a local level and closer to communities.

- The National Performance Framework identifies a broad range of shared national outcomes as a basis for seeking to improve the quality of life in Scotland and local government has an essential role in the delivery of these outcomes. However, the extent to which local government funding has been reduced as a share of Scottish Government funding, the required protection of specific services within local authority budgets and an increase in responsibilities as detailed in Local Government Finance Settlements has meant that a range of local services that play a key role in the delivery of agreed national outcomes have been significantly reduced.

- For example, the Scottish Government and local government share as a strategic priority the need to tackle the impact of poverty, and in particular, child poverty. The most recent statistics published by the Scottish Government in February 2019 show a rising trend in increasing poverty and increasing income inequality. The Office of National Statistics data for 2018 on Gross Weekly Pay (Full time Earnings by Residence) is £476.8 in our region compared to £563.2 for Scotland and £570.9 for the UK as a whole. Child Poverty in Dumfries and Galloway (2018/19) after housing costs are taken into account is estimated at 8,108 which is 27% of children in the region and a 3% increase on data in 2016/17, based on data from [http://www.endchildpoverty.org.uk/poverty-in-your-area-2019/](http://www.endchildpoverty.org.uk/poverty-in-your-area-2019/)

- Dumfries and Galloway Council has a Tackling Poverty Strategy which commits funds for specific tackling poverty initiatives and ensures that council services actively tackle poverty. The reduction in local government funding has led to our Council to limiting this work due to lack of funds. If further cuts are passed onto local authorities it will limit the resources available at a local level to invest
in tackling poverty or growing the economy. The recent SPICe report *Pro-Poor or Pro-Rich? The social impact of local government budgets, 2016-17 to 2018-19* highlights the extent to which local government spending is focussed on services to support those experiencing poverty (i.e. those used by, or relied upon by, lower income groups) and also recognises that when identifying budget reductions, local authorities are forced to make most of their savings from services which are used more by lower income groups.

- Achieving economic growth in Scotland that is inclusive is essential for the long-term sustainability of local authorities. Inclusive growth for all areas of Scotland with fair distribution of wealth as part of this is an important area for consideration for future funding.

- All of the above indicates that there needs to be an overall re-assessment of how the Scottish Government’s budget decisions, working with local authorities, can improve the quality of life within Scotland and achieve the shared outcomes identified in the National Performance Framework.

Dumfries and Galloway Council welcomes the opportunity to contribute to the Committee’s Pre-Budget Scrutiny. We can provide further details and information should the Committee require it. Given a number of the issues touched upon in this response relating the role of Local Government in Scotland and its financial sustainability, Dumfries and Galloway Council would recommend that the Committee consider examining these issues further.

**Dumfries and Galloway Council**

23 August 2019