**Introduction**

The Scottish Directors of Finance Section is a professional body, is aligned to CIPFA Scotland, and represents the Section 95 Officers (Chief Finance Officers) of all thirty-two Scottish Local Authorities. The Section has for many years ensured that high professional standards are maintained, and it has contributed very widely to the development of finance and accounting policy nationally. The Section works very closely with the Scottish Government and the Convention of Scottish Local Authorities (COSLA), and it is therefore ideally-placed to contribute to this Call for Evidence. The many years of experience in meeting the challenges of local government funding gives the Section a deep understanding of the challenges facing local government in remaining financially sustainable, while continuing to deliver vital services to our citizens and our communities.

While the Directors of Finance Section will provide responses to all five of the questions set out by the Committee, the focus will be on Questions 1 and 2.

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

The scale of Scottish Government grant reductions already made in recent years, and those forecast in future years mean that it will become increasingly difficult for Scottish local authorities to remain financially sustainable under the current service delivery model. In recent years the core funding from Government provided to councils in Scotland to support the delivery of vital core services has been reducing in both cash and real terms. Information recently published by the Scottish Parliament Information Centre (SPICe) has supported this view, and has shown the scale of the reduction in funding for Scottish local authorities in recent years. When comparing revenue settlements, real terms change figures show that between 2013-14 and 2018-19, the local government revenue settlement decreased at a much faster rate (-7.5% or £810 million) than the Scottish Government revenue budget (-2.8% or £870.4 million).
Although SPICe contend that the 2019-20 settlement reversed this trend, what was not highlighted was that the reported 1% increase in local government funding for 2019-20 included new funding for Scottish Government policy initiatives, principally the funding for Early Learning and Childcare expansion. The core grant for 2019/20 actually reduced by 1.52% in cash terms when compared to the previous year, and the real terms impact would have been much greater when inflationary cost uplift impacts are taken into account.

While core funding for local government is at best stagnant, and in reality reducing in cash and real terms, councils still have to meet ongoing and increasing cost commitments. The main elements of cost increase are set out as follows:

- **Employee pay** – following several years of pay restraint, the pressure has been significantly increasing in recent years to have some level of catch up, and the pay bargaining and subsequent pay settlements have resulted in significant additional cost pressure that local government needs to fund. In recent years the Scottish Government has made statements on public sector pay policy, which reflects a move away from the pay cap that was in force across the public sector in recent years. The pay negotiations for the SJC (non-teaching) workforce were ultimately concluded, at 3.5% for 2018/19, after an initial position of 3% had been made. Although some allowance may have been made by the Scottish Government in the assumptions that underpin the overall Local Government Financial Settlement, it is not at the level of a 3.5% increase for 2018/19 and 3% for 2019/20, resulting in a significant residual cost pressure for councils. As this was a three-year agreement, allowance has also been made in council budgets for 2019/20 and 2020/21 at 3%. It is not anticipated that the negotiations will be re-opened, but that cannot be discounted as a possibility, particularly in light of the pay negotiations for Teachers.
• The negotiations for the teacher workforce were protracted during 2018/19, and ultimately resulted in the Scottish Government implementing and funding “policy interventions”. This was due to a noticeable decline in students taking up the university places available, and increasing challenges in a number of local authority areas where it has been difficult to fill all their teaching vacancies. Austerity and public sector pay restraint over the past ten years was deemed to be causing negative impacts on recruitment to and retention of staff in the teaching profession. For 2018/19 the Scottish Government funded 1% of the 3% pay award for salaries above £36,500. From January 2019 there was funding of 3% salary inflation, together with a collapsing of the main grade scale from six incremental points down to five incremental points, increasing the starting salary for probationary teachers, in line with other graduate professions. Furthermore, the Scottish Government funded 1% salary inflation from April 2020 and the cumulative future effect of these elements on salary inflation for future years. The cumulative impact of this ultimate pay settlement for the c. 52,000 teachers in Scottish schools, which will result in a compound increase in teacher pay of 13.51% over three years, will undoubtedly result in increased expectations on the rest of the local government workforce, an expectation that is highly unlikely to be met from increased central government funding.

• Employer pensions contributions continue to increase across local government pension funds, mainly as a result of the increasing fund liabilities caused by increasing life expectancy of scheme members. While this demographic effect is to be welcomed from a society viewpoint, it means that employers (councils) are having to fund the growing financial pressure that this brings, i.e. greater numbers of beneficiaries requiring to be funded by fewer active scheme members. Furthermore, any shocks or turbulence in the wider economy, e.g. as a result of Brexit, are likely to have a detrimental effect on the performance of pension funds. Although Funds have been performing well in terms of achieving asset returns, they cannot be insulated from the wider external economic influences.

• The recent revaluation of teacher pension fund liabilities by the Government Actuary Department has placed a significant additional cost pressure on council budgets in the current financial year, and which will flow through to subsequent years. Councils were advised in October 2018 that as a result of the Treasury decision to adjust the Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate for the Scottish Teachers Pensions Scheme, this would have meant that the employers’ contribution rate would increase by 5.2% (17.2% rising to 22.4%) with effect from 1 April 2019, meaning that the employers contributions figure would have increased by around 30%. Further valuation has placed the final contribution rate at 23%, effective from 1 September 2019. Although the Scottish Government has passed through in full the Barnett consequential funding from the UK Treasury for this UK-wide issue, councils have still had to fund around one third of the overall cost increase, valued at £110M across all councils.

• The funding of non-pay inflation, both in general, and for specific contracts, has placed significant further pressure on council budgets. While most, if not all councils will
be containing the need to uplift budgets as much as possible on an annual basis, the issue can only be partly mitigated in this way. Inflation in recent years has consistently exceeded the Bank of England’s 2% target, and this has meant that councils’ ability to fund inflationary increases within the reduced grant envelope, has placed significant additional resource strain on councils.

Source: Office for National Statistics

- While it has been possible, with considerable difficulty, to squeeze some budgets to contain inflationary increases, this is by no means possible for all budgets. Significant budgets contain contractual inflationary uplifts that cannot be avoided, and these include PFI/PPP contracts, care home contracts, care at home contracts, etc. Councils have no option but to meet these uplifts by reducing other service budgets.

- The above cost pressures for local government account for the majority of pressures that are having to be accommodated within the reducing funding that is available to councils, however, there are many other issues that are contributing to the build-up of financial pressure. Other pressures consist of, but are not limited to:
  - The need to continue to maintain physical assets in a suitable condition for the purposes of service delivery
- Pressures caused by having to respond to the effects of welfare reform, and the move to Universal Credit
- Ensuring that all employees continue to be paid the Scottish Living Wage, and that it is continually uprated as recommended by the Scottish Living Wage Foundation

Clearly local government has to plan for increases to the cost of service provision as part of its normal financial planning cycles, and it has a good track record in doing this over a long period of time. However, the continued reductions to core funding are having a cumulative significant detrimental effect on the ongoing financial sustainability of local government, under the existing service delivery model.

Financial planning by councils is made more difficult by the series of one-year only financial settlements that have been provided by the Scottish Government. While it is understood that the funding that has been devolved from the UK Government has also been on a one-year only basis in recent years, which makes the Scottish Government’s own financial resource envelope less certain from year to year, councils are left with a great deal of uncertainty in trying to knit together a picture of all of the significant cost pressures, as set out in this evidence, against a backdrop of not knowing with any certainty what the movements in the most significant funding source are going to be beyond a 12 month horizon. This applies equally to both revenue funding and capital funding. It has been noted that the Cabinet Secretary for Finance, Economy & Fair Work has given a recent commitment to deliver three-year funding settlements for local government, and that commitment is most certainly welcomed by Directors of Finance. It will be important that this undertaking is actually delivered, and that any figures are as firm as possible, without being qualified as provisional, as that would only continue the uncertainty in financial planning for councils.

It is important to stress that central government revenue funding accounts for approximately 80% of local government overall revenue funding and that what might appear to be small percentage changes in that funding, will have a significant gearing effect on council core budgets.

Councils have also seen an increasing picture of significant government policy commitments being ringfenced within the local government funding envelope, e.g. the expansion of early learning & childcare, pupil equity funding and the transfer of funding in recent years from the Scottish Health budget to support the funding of social care pressures through the Integration Joint Boards. While councils have worked collaboratively with the Scottish Government in developing and implementing these policy expansions, the Directors of Finance Section believes that this move to ring fencing of funding is significantly adding to the pressure on the core funding for local government services generally. It is also resulting in the situation where some areas of policy are expanding, while most council provided services are having their core funding significantly reduced.

This continued reduction in core funding for local government services has already been having a significant impact on the vital services that local government delivers and which
are central to the delivery of the National Performance Framework. It is likely that the true impact of service reductions that have already been made in recent years, and that will also be made in the coming years, will not become apparent for some years to come, as the cumulative impact works its way through. In presenting this evidence, Directors of Finance would be concerned if the debate were to focus on the level of funding reduction, rather than the longer-term impact on society of the inability of councils to sufficiently invest in service provision.

**Keeping pace with the increasing demands for Social Care services is the single greatest challenge for local authority budgets**

**Demographic Change**, particularly at the older end of our population, is already placing strain on the ability of councils to maintain existing levels of service to our older citizens. The National Records of Scotland (NRS) recently published updated projections of Scottish household numbers and age distributions across Scotland. These highlighted how such ageing will impact on Scotland in the 25 years from 2016 to 2041, as well as how this will differ across Scotland. Those projections show that for Scotland as a whole, the percentage terms increase in elderly households is projected to be considerably higher than that seen overall, resulting in an ageing household distribution. Note that, in terms of population, the increase is less severe. For example, while the number of households in Scotland is projected to increase by 13%, to 2041, the population is only projected to increase by 5%, i.e. the average household size is expected to get smaller, as more people live on their own.

The projections also show that the ageing profiles of Scottish local authorities is not forecast to increase at the same rate in all council areas. For example, while Glasgow is projected to have the lowest, indeed falling, change in the number of households headed by someone aged 75 or over, by 2023/24, it is also projected to have the highest change in the number of households headed by someone aged between 60 and 74, over the same period. Furthermore, as with every other local authority, by 2041 Glasgow is projected to have seen a substantial increase (almost 50%) in the number of households headed by someone aged 75 or over. The most severe increase in elderly populations is that some councils will have an increase in over 75 households over the next twenty years of just over or around 100%. The average forecast increase for Scotland up to 2041 is 72%.

Clearly the impact on providing social care services will be very significant over that period. Although the establishment of Health and Social Care Partnerships is intended to reduce duplication in service provision and to drive improvement and efficiency, it is highly unlikely that the sheer scale of this demographic change, and the consequent implications for service delivery, can be managed within the existing funding levels. Indeed, Health and Social Care Partnerships across Scotland are already showing significant financial stress, although the degree of financial stress will vary between partnerships. Furthermore, there is little evidence thus far that resources and funding are moving to any great extent from acute health care to community health and social care. Partnerships were created to provide opportunities for creating innovative, citizen-
led means of meeting the demographic-led demand on a sustainable basis, but partnerships have been struggling to achieve this in their early years of formation, with the acute health sector continuing to experience severe demand pressures. The existing demand pressures mean that there is limited ability to invest in prevention and spend to save measures to reduce future demand. Furthermore, the existing financial pressures on many health boards is, in turn, placing a knock-on pressure onto the social care side of many Health & Social Care Partnerships, due to the continuing need to discharge patients from a hospital setting, but without a corresponding transfer of resource to facilitate this.

Finding “headroom” to invest in preventative activity whilst reactive demand continues to escalate, is proving to be very challenging for partnerships and the individual funding partners. Progress is certainly being made in making changes to service delivery, principally through the Partnerships, but it is simply not occurring quickly enough to address the increasing financial pressure. Individual councils, health boards, or Health and Social Care Partnerships alone will not solve this massive demographic and demand challenge. A more fundamental and searching debate needs to take place at national level about how this challenge can be addressed, and how more innovative and community-led solutions can be identified that can match resources better to expected outcomes and levels of service.

Demographic change is by no means the sole driver of increasing demands for social care services and the cost of delivery for local authorities. The increasing pressure on the Health Service, caused by a wide and complex range of factors, e.g. the growing problems of drug misuse and the lasting impact this has on individuals, families and communities, puts a national focus on the acute end of health care. The fundamental role that social services play in the overall Health Care System is not given sufficient status, particularly in terms of the vital role that it plays in keeping citizens in a community setting for as long as possible and relieving the pressure on the acute end of the system. This lack of investment in the community end of the health system can only lead to ever-increasing pressure on the more resource hungry acute services. At the same time, public expectations from social care services are not reducing, but are actually becoming greater.

We must urgently get away from the position of social care services being seen as the safety net for the short-term demand pressure on acute services, without a matching transfer of resources. Instead, resources must shift to match the policy aim of greater social care services investment being a key element of solving the problem in the medium- to long-term, especially in the light of the long-term population forecasts that indicate the shift in the balance between those of working age who will fund public services through taxation and the increasing elderly population who will require health care services in its widest sense.
Capital Funding

Although Scottish local government faces significant challenges in managing revenue budgets that support spending on crucial services, there is equally a challenge in funding vital capital investment. If councils are to combat the massive funding pressures that are already upon them, one of the key strategies will be the transformation and reshaping of service delivery models. This will require councils to make significant investment in physical and technology infrastructure, and this will come at significant capital cost. At the same time, operational assets will require to be constantly upgraded to ensure that they are capable of providing an acceptable level of service delivery. Although councils do receive cash grant from the Scottish Government on an annual basis to support this investment, the quantum of funding has not been sufficient to enable all investment priorities to be met. Councils are therefore having to make difficult choices in prioritising investment, and a backlog has been building up. There is a concern that this will result in an additional revenue and capital burden in future years if sufficient investment is not carried out now.

Local government has been very active in rationalising its asset base to minimise the cost of asset maintenance and investment, and this has certainly helped to minimise the revenue burden, but this efficiency rationalisation can only partially address the transformation agenda, and significant additional capital will require to be spent. Although councils have powers to borrow to fund investment, this needs to be done in an affordable and sustainable way, without placing additional strain on revenue budgets. Investment business cases can be marginal at best if borrowing required is not at a sustainable level, and additional capital support from central government and other agencies can be the difference between investments stacking up financially or not. Funding from central government to support ongoing asset investment, whether that be from general capital grant, city region deals, learning estate investment or any other stream will be vital to support the investment that councils will need to make to enable them to deliver services that are fit for current and future generations, and to drive vital economic prosperity in Scotland.

2. (a) How effectively are councils addressing these challenges?

The performance of councils is regularly monitored and reported on at a number of levels:

- through the annual external audit of individual councils
- through the programme of Best Value Audit Reviews carried out by Audit Scotland on behalf of the Accounts Commission
- via national studies and reports carried out principally by Audit Scotland
- by a wide range of national regulatory bodies, e.g. the Care Commission, Education Scotland
As has been noted in recent Accounts Commission publications, councils have been “just about managing” but they have consistently reported that strains are clearly beginning to show as witnessed by deteriorating performance outcomes in some areas and significant overspends in demand-led services, particularly Health & Social Care Partnerships. Reports highlight the significant financial challenges facing councils, and stress the need for local government to put in place strategies to address the problem, but perhaps without fully appreciating the complexities of the challenge, and the constraints that councils face in being able to meet that challenge. Councils generally have responded effectively to the challenges and that is well evidenced. Audit Scotland reports regarding the challenges and performance of local government highlight that despite restrictions on funding and increasing demands, performance has improved in most local government performance indicators. There is however local variation and some services in different Councils are showing signs of strain.

However, the ability to continue to respond is increasingly limited and the decisions taken to balance budgets are having an ever-increasing impact on communities. The question posed by the Committee perhaps should not be so much about how well councils are addressing the challenges, but be more outward and forward looking about the future ability of councils to address continuing constraints on funding, and how realistic it may be for those constraints to continue and possibly even increase in severity.

One area where there is evidence of increasing pressure is the ability of councils to maintain an adequate level of reserves in times of financial pressure. The Directors of Finance Section would certainly not advocate the use of reserves to underpin a medium- to long-term sustainable financial strategy, as those reserves would eventually be depleted and have to be replaced with service budget reductions. However, the use of reserves can certainly be useful in managing the timing of structural changes in the financial strategy, and in funding any temporary unanticipated financial pressures. Audit Scotland regularly comment on the level of reserves held by councils, and in their Local Government in Scotland Financial Overview for 2017/18, they commented that eighteen councils ended 2017/18 with lower levels of usable reserves than they had at the start of the year, although the overall reduction was relatively modest at £18M across Scotland. However, they also have commented that four individual councils are at risk of using up reserves in the next 2-3 years, and since that comment was made, it is likely that more councils may have fallen into that category, and that erosion of reserves is of significant concern.
2(b) Do councils currently have all the powers they need to do so?

Councils currently have a wide range of powers available to them, but often there are constraints and restrictions placed on those powers. Directors of Finance believe that Councils need more freedom to use those powers to best effect, with less constraint on the direction of resources, a greater ability to use revenue generation powers, and indeed an extension of those powers, alongside a lesser degree of central direction and control by central government.

It is vitally important that conditions and restrictions placed on Councils to protect spending, or to increase spending in particular areas is lifted in order that spending decisions can be made on the full range of services that councils provide. The current position where councils cannot reduce the number of teachers that they employ, even where efficiencies in the cost of service are possible without compromising the standard of service, is placing a particular strain on council budgets. The most significant example of this relates to the issue of teacher numbers. Teacher pay typically comprises around 20% of total General Fund costs for any given council in Scotland. The inability of councils to significantly influence the quantum of this cost means that other service budgets are having to bear a disproportionately larger share of budget reductions. It is understood that Education is a key government priority spending area, but the cumulative effect of having to protect this area of spending, which has been the case for the past six financial years, is proving extremely difficult to sustain. Taken together with the ongoing challenges around social care funding, discussed previously in this Evidence, and the difficulties in reducing funding for that service area, the protection of teacher pay budgets means that as much as 40% of net General Fund budgets cannot be reduced without coming into conflict with central government policy, or exacerbating the social care funding problem. The gearing impact that this then places on all other service areas is now becoming very acute, and is jeopardising the overall financial sustainability of local government.

The recent ability of councils to raise council tax, albeit within a government-set upper limit, has given some welcome flexibility. However, full flexibility around local tax raising, where the tax is locally determined, would in the absence of adequate core government funding give councils greater freedom to deal with the current financially challenged situation and to better mitigate the impact of the continued real terms reductions in funding. Although the Section would welcome the forthcoming review and possible replacement of Council Tax, there is a real risk that this will potentially introduce a degree of turbulence into the funding of local government, and this review will need to be managed very carefully to minimise the risk of destabilising the funding for local government generally, or for individual councils. The Scottish Government and the Parliament more generally can be assured of the Director of Finance Section’s support for the work to support the review, as it possesses a considerable amount of knowledge and experience in the field. However, the Section would stress in the strongest terms that any review should not lead to a situation where overall funding for local government reduces.
Greater flexibilities around discretionary taxes are to be welcomed as part of the wider range of measures available to councils but they may not be sufficient to fully address the fundamental issue of reductions in core funding. Expansion of powers to areas such as the Transient Visitor Tax will be appropriate in some circumstances but not all councils will be able to benefit from this additional power, should it ultimately be introduced.

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 the 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.

Many of the practical steps that are necessary to plan to meet the financial challenge are already in place and being constantly developed. Medium-term and long-term planning are critical to the management of financial resources, and this has been a feature of how councils plan their service delivery. Councils’ financial planning has generally been effective in forecasting key expenditure and income factors, resulting in accurate quantification of overall savings requirements. What is becoming increasingly challenging, however, is going beyond efficiencies to deliver genuine transformation and prioritisation to allow the councils to live within their means on a sustainable basis.

Despite the lack of certainty in levels of financial support that will be available from central government beyond the current financial year, councils have for some time been producing longer-term financial plans, for both revenue and capital, and in many cases spanning up to a ten-year time period. Clearly these plans will contain many assumptions on the factors that feed into the plans, and these will have to be constantly modified through time as circumstances change, but there is certainly much value in being aware of the changes to the main cost and funding drivers that are facing councils, and indeed forecasting any new pressures or opportunities that are “coming over the horizon”.

It is also worth highlighting that in the case of those councils who have retained their council housing stock, the business case financial plans extend out as far as thirty years.

In constructing these longer term financial plans, information and intelligence is drawn from a wide range of sources including, but not limited to:

- Planning data held by councils themselves, e.g. housing planning data in Local Plans, pupil roll projections
- Planning data held by community planning partners, e.g., local health boards, NHS Scotland
- Planning data held nationally, e.g. population projection and other datasets held by National Records of Scotland
- Scottish Budget forecasts
- Scottish Government Medium-Term Financial Strategy
• Bank of England inflation and economic forecasts
• Office for Budget Responsibility statements
• Independent economic forecasts that are regularly published
• Etc.

It is the role of council chief finance officers to bring together all of the available information sources to produce financial plans that knit together all of the cost drivers, demand drivers, funding drivers and economic influences into cohesive financial plans, and to test those plans by applying sensitivity variation to them. Plans are regularly updated to reflect the factors that drive the underlying assumptions are constantly changing. Of course, the data collection process can always be developed and improved, and councils are already looking at how to use new and emerging technologies to better harness available data and to convert it to better inform decision making and the planning of resources.

Management of financial risk is key to this planning process and that risk approach should be integrated into planning and performance management. Many councils maintain Financial Risk Registers and actively use them in decision making.

Financial plans need to be supported by a range of detailed sub plans, including workforce plans, service demand plans, etc.

A key message that the Directors of Finance Section would wish to stress is that the further development of longer-term financial planning, would be greatly assisted by the publication of a three-year Local Government Finance Settlement from 2020, and the Section very much welcomes the Cabinet Secretary’s intention to do so.

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?

It is the duty of all councils to identify and consider all options for how they can restructure their service delivery offerings. This should involve some difficult thinking, including the evaluation of:

• the potential discontinuation or reduction in the range of services that are provided,
• consideration of which bodies are best placed to provide those services,
• how individual services should be best funded, e.g. chargeable at the point of provision
• how services could be delivered on a shared basis with other agencies

However, there are a number of substantial systemic barriers to adopting alternative models of planning and service delivery, including:

• the cost of re-organisation
• systems incompatibility
• the cost and complexity of migration
• risk appetite
• perceived reductions in local political control and democratic accountability
• organisational culture and
• perceived reluctance at national level to allow alternative local structural solutions to develop e.g. amalgamation of NHS and Council services into one unitary corporate body without the complexity of an IJB.

That said, there are good examples where councils are increasingly seeking to work together (and with the NHS) in a variety of alternative structures including lead authority/agency, joint management arrangements and shared services. These tend however to be small-scale opportunistic, examples which only work where they are seen to offer better value for money or reduced risk when compared to stand alone area-based council services.

It is the view of the Section that greater joint working between councils and other partners is absolutely essential if the scale of budget reductions facing councils are to be achieved. For example, continuing to run thirty-two separate non-domestic rates collection services, all under the exact same legislative framework, can no longer be considered viable in the medium or long term. Work is already underway to examine the viability of a Scotland-wide rationalisation of this service area, and the principles derived from this review could then be used to roll out other shared service arrangements.

Examination of shared service delivery between councils is a well-trodden path and although everyone understands the principles, it has not been implemented to any significant extent in Scotland. A number of factors appear to have prevented such initiatives from moving forward in any significant way, including political resistance to a perception of greater centralisation, the impact on local employment in some areas if centralisation were to be pursued, and the sheer technical difficulties in implementing increased joint service delivery. Although there is undoubtedly scope for further and more meaningful shared service provision, this would only partly contribute to the overall financial challenge, and should not be considered in any way as a silver bullet to solve the huge financial challenge facing local government.

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?

In recent years there has been a clear and indisputable reduction in the central government funding for local government core services, while at the same time there has been an expansion or a protection in the funding for selected service areas that align with Scottish Government priorities. While this prioritisation of some areas is understandable, and is certainly not a new phenomenon, there is a real danger that the effectiveness of these initiatives is compromised by under-resourcing of the foundations on which they depend.

Councils play a key role in supporting the provision of vital local services right across Scotland, but to assume that they play a service delivery role only would be to seriously underplay the importance of local government in everyday life in Scotland. They provide a platform for tackling inequalities for all of our communities, particularly those in some of the most deprived areas of our country. Local Government also acts as a key driver
for economic activity in Scotland, both directly as a major employer and less directly as a sector that provides many of the basic building blocks for economic prosperity in Scotland.

However, the Directors of Finance Section believes that the long term financial sustainability of local government is currently under threat. As financial austerity in the UK public sector continues and its effects bite deeper, the ability of councils to make adequate financial provision for the rising demand and cost pressures has reached a critical stage. The service “efficiency” opportunities of recent years, which in many cases were bordering on service reductions, are now few and far between and cannot be relied on to balance future budgets to the extent that they have been hitherto.

Although we can unquestionably get better about how we plan our service demands, no amount of forward planning can take us away from the fact that core services are chronically underfunded. We need a new honesty and a fundamental assessment of what level of service provision we can realistically deliver within the current funding regime and quantum. This includes greater realism from the Scottish Government towards local government about the levels of service that can be provided when core funding is being constantly reduced. As a country, we either need to accept that we will deliver a lesser range of services within the current financial envelope, or we can continue to deliver the same range of services but to a lower standard, and run the risk that some services will fail, with all of the risks that that would bring.

Of course, the rapid technological advancements that we continually see will offer the opportunity to fundamentally reshape service provision and deliver services that will still be of a high quality, but will look different to how they look now. Those exciting possibilities should give us hope that local government will continue to be able to meet the expectations of all its stakeholders, but that reshaping of services will take time to achieve and will require considerable investment at a time when service demands are increasing unabated, particularly in social care.

Either way, we need innovative and creative thinking to ensure that local government continues to play the crucial role that it currently does across Scotland, and the Directors of Finance Section are prepared to continue playing a key role in that journey.

Scottish Directors of Finance Section

29 August 2019