

Finance and Public Administration Committee: Scotland's Public Finances in 2022-23 and the Impact of Covid - Submission from COSLA, SOLACE and CIPFA Directors of Finance

***COSLA** is a Councillor-led, cross-party organisation which champions Councils' vital work to secure the resources and powers they need. COSLA works on Councils' behalf to focus on the challenges and opportunities they face, and to engage positively with Governments and others on policy, funding and legislation. We're here to help councils build better and more equal local communities. To do that we want to empower local decision making and enable Councils to do what works locally.*

***SOLACE** is the Society of Local Authority Chief Executives. SOLACE's membership includes all 32 local authority Chief Executives in Scotland, each responsible for leading multi-million pound organisations and thousands of employees, providing a huge range of essential services to the entirety of Scotland's population.*

***CIPFA Directors of Finance Section** works closely with COSLA in leading strategic discussions with Scottish Government around funding and distribution for the essential services and policy areas that Councils deliver on. Members of the Section are those who have responsibility for the overall financial functions across all 32 Local Authorities.*

Introduction

1. COSLA, SOLACE and Directors of Finance Section are pleased to present a joint response to the Finance and Public Administration Committee's call for views on Scotland's public finances in 2022-23 and the impact of COVID-19, as part of its pre-budget scrutiny.
2. We note that the Committee is particularly interested in views on the ongoing fiscal response to the crisis and how to support a fair and equal economic recovery while addressing the financial cost of the pandemic. Our response therefore seeks to address these points from a Local Government perspective.
3. We previously presented evidence to the former Finance and Constitution Committee for its 2021-22 pre-budget scrutiny on the Impact of COVID-19 on the Scottish Government Budget, which can be [found here](#) and the [follow up letter to the Committee here](#). Whilst much of what we said then still stands, particularly around the financial challenges to Local Government; how Local Government responded to the Covid crisis; and our views on a Fiscal Framework for Local Government to complement the Scottish and UK Government's Fiscal Framework. That evidence went into some detail on these areas, so in our response to the Committee's

questions below, we have sought to highlight key considerations reflecting the current state of play.

Summary of Key Points in the Submission

- ❖ There needs to be fair funding in the Scottish Budget to Local Government. Whilst there has been much focus on the role of the NHS in dealing with the pandemic, with the promise of significant levels of investment, this must not come at the expense of critical services which Local Government needs to continue to provide in recovery and tackling poverty and inequality.
- ❖ The establishment of a new National Care Service as proposed by the Scottish Government is a distraction from recovery which will take resources, time and capacity away from service delivery at the time we would wish to see a significant investment.
- ❖ Local Government needs absolute flexibility to manage funding locally and to respond to need, rather than be pressed into areas of specific spend or to be limited to using funding by an artificial deadline or within a financial year.
- ❖ Investment in infrastructure, alongside investment in services, needs to be at the forefront of the Scottish Government's thinking on the Scottish Budget.
- ❖ If Local Government is to play its part in achieving net zero emissions, then both revenue and capital funding is needed, alongside policy/ legislative levers to act effectively, integrating carbon reduction into Councils' mainstream service delivery, as well as through dedicated initiatives.
- ❖ Targeting resource where the pandemic has hit society hardest is a more effective and value for money use of resource and, where policies are universal, they must be fully funded to enable Local Government to deliver these policies.
- ❖ There needs to be a whole system thinking about health and wellbeing, across the public sector. The key social determinants of health of education, housing, employment are all drivers behind long term health and must be invested to improve health outcomes and address health inequality.
- ❖ Work on a Local Government Fiscal Framework should tie into reform of the Fiscal Framework system as a whole and should provide a fair and equal basis across the fiscal landscape in Scotland.

1. How should the Scottish Government's Budget for 2022-23 address the need for a fair and equal recovery from the Covid crisis?

Investment is needed to support Recovery

4. The Scottish Government's Budget for 2022-23 will need to fully recognise the importance of Local Government services in supporting communities to recover from the Covid crisis and to tackle poverty and inequality. Crucially there will need to be a strong focus on community and economic recovery for which Local Government will need to be resourced to play its part. Councils are major employers in themselves and also play a key role in terms of local economies, commissioning and procuring services, creating jobs and providing employability services to support people into work. The pandemic has starkly exposed and exacerbated the inequalities within our society and, to achieve a fair and equal recovery, significant long-term investment is needed in our communities, focused on addressing these.

5. In order to be able to support community and economic recovery, there needs to be fair funding in the Scottish Budget to Local Government. Whilst there has been much focus on the role of the NHS in dealing with the pandemic, with the promise of significant levels of investment, this must not come at the cost of critical services which Local Government needs to provide in recovery. Recently published research¹, based on English Councils, indicates that cuts in funding for Local Government might in part explain adverse trends which have emerged in life expectancy. Equally, Councils must prioritise areas such as education at the expense of other core Local Government services which also have a key influence on the social determinants of health and have the potential to improve wellbeing and deliver upstream intervention, which ultimately takes the strain off the NHS. Services including leisure and sports facilities; waste collection; homecare and homelessness prevention; and provision of community hubs, offer security to communities and contribute significantly to peoples' daily wellbeing. COSLA together with Public Health Scotland has produced a briefing on the positive contribution of physical activity and sport to Scotland, through a cross policy lens, which stresses the importance of physical activity for wellbeing. The briefing can be [found here](#)

6. Demand for social care is likely to increase and potentially change as result of the pandemic as we see more people who may be affected by the long-term health and social impacts of the pandemic. This goes hand in hand with the desire to support people to stay in their own homes, which for those with complex needs is frequently more costly to provide. Alongside this, services such as environmental health, trading standards and local economic development help to ensure safe and

¹ [https://www.thelancet.com/journals/lanpub/article/PIIS2468-2667\(21\)00110-9/fulltext](https://www.thelancet.com/journals/lanpub/article/PIIS2468-2667(21)00110-9/fulltext)

growing inclusive economies. Historically these are the services which have faced reduced funding when difficult local decisions have had to be made, and there is a real risk that these services will be diminished further if there is not a fair funding settlement for Local Government. A wider view of targeting funding to improve health is therefore required. It is important that this investment is in outcomes rather than creating new structures. The establishment of a new National Care Service, as proposed, is a distraction from recovery which will take resources, time and capacity away from service delivery at the time we would wish to see a significant investment.

Flexibility to respond effectively to ongoing impacts of COVID

7. Whilst the funding provided by the Scottish Government to address the impact of Covid is welcomed, this funding is largely one off and does not address the underlying need for the continuing resourcing of core services delivered by Local Government. Fundamentally, there needs to be a recognition that the crisis is far from over and, for many people, as support like furlough comes to an end and Universal Credit is limited to pre-Covid levels, inequality and lack of opportunity will increase. There is a very real risk that the sorts of financial intervention seen during the pandemic to support low-income households will not be replicated, whilst the crisis will be ongoing for many people.

8. We are yet to see to what extent there will be a rise in unemployment and the potentially disproportionate effect on levels in Scotland. With the substantial packages of financial inclusion support set to come to an end, the question is what will be there to respond to the ongoing crisis? COSLA believes that this is not the time to switch from crisis management, as a crisis response “mode” will be required for several years to come. For instance, additional funding for the Scottish Welfare Fund during 2020-21 is not set to continue for 2021-22 and beyond, at a time when the Fund is likely to come under significant pressure from those needing support during the recovery phase. At the same time Local Government needs to invest in preventative activities if we are to address matters such as inequalities over the longer term. Councils currently have to call on reserves to deal with the ongoing crisis, however this is one off funding and there needs to be thinking about responding to crisis over a longer term. Further comments are made about Councils’ reserves under question 4.

9. Local Government needs absolute flexibility to manage funding locally and to respond to need, rather than be pressed into areas of specific spend or to be limited to using funding by an artificial deadline or within financial year. The outcomes that were jointly agreed in the National Performance Framework (NPF) should govern how well Local Government’s performance is measured and a much greater focus on how Local Government is achieving over 60% of priorities in the NPF, rather than the current landscape of siloed pots of national funding, with micro-management of each. A more strategic approach is also required to enable Local Government to address the inequalities with our communities in a holistic manner. Ministerial engagement must demonstrate respect for Local Government and for Ministers to trust Councils to get on and do the work they were democratically elected to do.

Investment is needed in Infrastructure

10. Investment in infrastructure, alongside investment in services, needs to be at the forefront of the Scottish Government's thinking on the Scottish Budget. Local Government has experienced significant reductions in its Capital settlement over the last 2 financial years and, in its five-year Capital Spending Review, the Scottish Government is indicating that the currently reduced position for Local Government will be broadly maintained. This fails to recognise that Local Government is facing serious Capital budget challenges which are exacerbated by the pandemic, with the continued provision of modern and well-maintained amenities such as community and leisure facilities under serious threat. This is exacerbated by cost increases of building materials and expected higher national standards, for example in building affordable housing. There is evidence to demonstrate that the quality of housing and overcrowding has a direct impacts on peoples' health and wellbeing – household size has been found to be factor in both infection and mortality rates² during the pandemic.

11. It should be stressed that investment in infrastructure also requires ongoing and sustainable revenue funding to operate and maintain facilities which communities depend upon into the future.

Investment is needed in addressing the impacts of Climate Change

12. Local Government has a key locus in transition to a low carbon economy and combating the adverse impacts of climate change. This applies to Local Government's own estate, such as modernising buildings and vehicles, where greater investment is needed. It applies equally across all areas of Local Government intervention including heat, transport, planning, education, economic development, place and waste. Local Government needs the resources and policy/legislative levers to act effectively, integrating carbon reduction into their mainstream service delivery, as well as through dedicated initiatives. Critically if Local Government is to play its part in achieving net zero emissions, then revenue funding together with capital investment is needed. The recent report by the IPCC³ evidences starkly how urgent the problem is, if significant changes and investment in infrastructure are not implemented at rapid pace, global warming will be greater and even more damaging.

2. How should the Scottish Government's

Budget address the different impacts of the pandemic

² <https://www.health.org.uk/publications/reports/unequal-pandemic-fairer-recovery> pg 27

³ <https://www.ipcc.ch/report/ar6/wg1/>

across age, income and education groups and across places?

Place-based inclusive approaches are needed

13. The Covid pandemic has had a whole range of impacts on communities which require different approaches to address. Impacts have been felt across the whole of our communities, but these impacts have not been felt equally across or within them. Key impacts have been on children and young people's education; mental health; and poverty and inequality. In order to deliver the different recovery measures across communities, Councils will look to use well established place-based approaches. These range from improving places and place-based regeneration, such as bringing buildings back into use in town centres and improving the wider public realm, to supporting and working with communities to make places more liveable. This is often directly linked to social care and community care – building resilience and services within communities which enable people to stay within their own homes and communities and experience better outcomes. However, Councils will need to be resourced to do this and to be able to tailor solutions to individual and community circumstances.

14. Responses need to be developed around a whole family approach, so funding should allow flexibility for this and not be, for example, siloed by age. There are some very real examples in employability with, for instance, the Young Person Guarantee not currently being treated as part of the wider No One Left Behind approach to employability (which COSLA is jointly signed up to). Additionally, stripping out services and budgets, for example adult social care, children's services and criminal justice, risks destabilising the whole system and will cause disruption, when the focus should be on improving outcomes and addressing the inequality embedded in our society.

Targeted support works better than Universalism

15. Recent Scottish Government policy announcements, including those set out in the SNP manifesto's "100-day commitments", have tended to favour universalism (free school meals, free music tuition, abolition of curricular charges, free bus for under 22s). Very often these are prescriptive pots of specific policy-related funding which tend not to recognise place and the needs of individuals. COSLA would argue that, particularly while it is limited, targeting resource where the pandemic has hit society hardest is a more effective and value for money use of resource and that, where policies are universal, they must be fully funded to enable Local Government to deliver these policies.

16. Furthermore, Social Care reform must focus on what needs to be delivered and not the structures to deliver this. The wider contributors to improving health must also be recognised within this context including housing, education,

employment and a resilient community which can support people. The impact of the pandemic on older people in care has been disproportionately severe. However, this stems just as much from historic under-investment in adult social care as it does from the disproportionate impact of Covid on older vulnerable people. The Independent Review of Adult Social Care estimated that investment of an additional £436m would be required to address unmet need of those who do not currently have access to social care who would benefit, compared to the level of access in 2009/10. This unmet need exists despite a real-terms increase in expenditure by Councils and Integrated Joint Boards of 7% since 2009/10.

17. Councils continue to deliver a wide range of care services; however, these are very often constrained by lack of resources, often with difficult choices being made after assessment of care needs, focusing on higher priority cases only and which may mean the desired service is not available. The burden of unpaid care, and its disproportionate reliance and impact on women is a very real issue that requires attention – more women have been furloughed, reduced hours or stopped working due to increased care requirements caused by the pandemic. This will have significant long-term economic impacts and is likely increase inequality further.

3. In 2022-23, it is likely that there will be reduced levels of available Covid-related financial support for the public and private sector. Given this, what should be the priorities for the Scottish Government's Budget?

18. The funding which has been provided for responding to the Covid pandemic has been critical to ensure people and businesses have been supported during a time of unprecedented crisis. Councils have been at the forefront of delivering these supports. With the right level of resources, Councils are equally well placed to deliver on economic recovery and people and place focussed recovery. What is required, however, is that Local Government is provided with the necessary tools, with a greater focus on partnership and collaboration and flexibility to use fiscal tools, without central direction. Local Government needs stability and certainty to the resources it requires to support communities and deliver essential services. There needs to be a greater focus on longer-term strategic issues for Local Government Finance, to ensure that Councils' key role in recovery can be maximised and leveraged to address the increased inequality within our society.

19. There needs to be whole system thinking about health and wellbeing, not just funding for NHS, something which COSLA has long called for. The key social determinants of health of education, housing, employment are all drivers behind long term health and must be invested to improve health outcomes and address health inequality. Continuing with the current inflexible approach mitigates against the ability to tailor solutions locally or allow for investment and innovation where it is needed. As an example, a Council has cited that it had funding to address period poverty, however as this was ring-fenced the Council was unable to be flexible and use part

of the funding to combat domestic abuse, despite these issues both affecting women and girls from lower income households and being interrelated.

20. Similarly, Councils have a key role in creating 'net zero places' and driving and facilitating change in their local areas. Any action on climate change is inextricably linked to the natural environment, human health and wellbeing, and the economy. Councils have powers and are looking at measures like low emission zones, however these come at a financial cost in order to enforce measures.

4. How should the Scottish Government Budget in 2022-23 address the risks arising from the level and rate of recovery from the pandemic in Scotland relative to the rest of the UK? Please consider any impact on devolved tax receipts and social security benefits in your answer.

21. There are significant risks that widening health inequalities, increased levels of poverty and, specifically, child poverty, will be felt to a greater extent in Scotland relative to parts of the rest of the UK. The Poverty and Inequality Commission's Report ⁴ to the Scottish Government in June 2021 stated that child poverty rates are at best stagnating and may actually be beginning to rise. These concerning statistics are emerging even before the full impacts of the pandemic are felt. There will need to be significantly greater action needed to meet child poverty targets. Local authorities will play a leading role in seeking to address child poverty and will look to work collaboratively with the Scottish Government and partners. Taking children's services into a National Care Service will disrupt well established partnerships and key approaches to tackling child poverty as well as impact on the delivery of The Promise. As a key part of this there is an opportunity to look again at how the fiscal framework including devolved taxes can support recovery, focussing on inequality and child poverty.

22. There is a question over how well targeted and affordable the currently devolved social security powers are. For instance, the £10 Scottish Child Payment, which includes low-income criteria, is an example of an intervention that addresses a symptom of poverty but not the cause. Councils have substantial local knowledge of what interventions can work best to support financial inclusion, so the devolved powers should seek to utilise that close knowledge of needs within communities.

23. Alongside the devolved taxes and social security powers which the Scottish Government controls, there is a question around Council Tax. Reform or even replacement of Council Tax to make it a fairer tax, or to have a fairer alternative,

⁴ <https://povertyinequality.scot/publication/poverty-and-inequality-commission-child-poverty-scrutiny-report-2020-21-report-to-scottish-government/>

have been 'on and off' the political agenda for some considerable time. How revenue is raised is just as important to addressing inequality and ensure a human rights-based approach, as how it is spent. There is no question that a more progressive local tax would introduce greater fairness and equality into the system of tax revenue to fund Local Government services. However even a reformed local tax may not make it more local. Currently Council Tax is a nationally controlled tax in all but name, with the Scottish Government having re-introduced a Council Tax freeze for 2021/22, having capped the levels of increase in recent years to 3%. Council Tax Reduction is also nationally controlled, unlike in England; however, it provides a vital lifeline to low-income households. An outcome of responding to the risks to how recovery will fare in Scotland relative to the rest of the UK, should therefore be to look again at Council Tax reform including Council Tax Reduction. This should take account of Local Government's ability to raise revenue locally and to use local taxation to respond to local needs.

5. How has the Fiscal Framework worked in managing response to the crisis?

24. The Fiscal Framework has ensured that consequential funding under the Barnett formula has flowed to Scotland. However very often funding came at short notice, both from the UK Government and then following Scottish Government decisions on utilising the consequential funding. Transparency was an issue throughout the process – and there was often a lack of early and effective engagement with Local Government. Little opportunity was afforded to consider whether funding could have been used more effectively to support those who needed it most. As we moved through 2020/21 and into 2021/22, the Scottish Government became much more willing to provide Covid funding as general revenue grant, with only very light touch reporting, which has been welcomed. COSLA would argue that this sets a good precedent for funding recovery, whereby Councils are able to use discretion and be flexible in responding to the range of local needs.

25. However, much funding was awarded very late in the financial year. COSLA wrote to the Local Government and Communities Committee on 3rd March to put on record the impact that this would have and the position in relation to Councils reserves, [which can be found on our website](#). This set out clearly the reasons why Councils hold reserves, what Councils could and could not do to utilise reserves to offset the financial pressures caused by Covid; and that reserves would necessarily increase due to the late notification of a considerable portion of Scottish Government Covid funding. Equally, following the Scottish Election and the Scottish Government's delivery of the "100-day commitments", this has unfortunately seen a reversal in approach in the way Scottish Government chooses to fund some Local Government services. This has resulted in a number of different funding pots each of which are micromanaged and disjointed in their policy aims and delivery, such as removal of fees for instrumental music tuition and play parks refurbishment, both of which have historically been up to local discretion. Added to this is a shift toward universality over targeted funding, such as lifting instrumental music tuition fees, where Councils were already targeting free tuition to children of low-income families.

26. Whilst reserves are high in relation to Covid monies carried forward, this is not a substitute for core recurring funding. There is a risk that the level of reserves is interpreted as less funding being required - this is not the case. Local Government will be dealing with the legacy of the pandemic in years to come and resource will continue to be required for this.

27. Local Government had a primary role in supporting businesses and communities (business grants; pandemic payments etc), the funding for which came from UK consequentials passed on by the Scottish Government, with around £1.3bn of support provided during 2020 and a further £1.2bn since the start of 2021. Whilst Councils have primarily acted in an 'agency' role on behalf of the Scottish Government in delivering these supports, Council officers have nonetheless been closely involved in co-design, often with short notice following Ministers' announcements. This has required considerable effort by Council staff to bring about delivery of much needed support to businesses and communities with the minimum delay. Earlier dialogue and engagement would have helped to deliver these supports more effectively, with the result that a huge extra effort was therefore required.

6. How should learnings from the pandemic inform the forthcoming review of the Fiscal Framework?

Longer term certainty is required at all levels

28. The devolution of tax powers to the Scottish Parliament has introduced a higher level of risk and uncertainty around the assumptions required to deliver a Budget. The nature of the current UK Fiscal Framework, by which the Scottish block grant is adjusted for the retention of devolved taxes in Scotland, means that these risks can only remain at a Scottish Government level. Fundamentally the relative difference in earnings growth and the composition of taxpayers in Scotland compared to the rest of the UK, which is a key feature of the current block grant adjustment mechanism, suggests an inherent unfairness in Scotland's disfavour. For instance, for 2020/21 Scottish income tax policy generated just £46m more than the deduction for the BGA, with around half of Scottish taxpayers receiving higher tax bills, with no additional spending power for the Scottish Budget. Effectively the Scottish economy needs to outperform the UK as a whole, in order for tax policies (aimed at increasing revenues) to provide maximum benefit to Scotland.

29. The existing arrangements are also influenced by uncertainty in estimates of tax revenues caused by the timing of the UK and Scottish Budgets, which has tended to discourage the Scottish Government from setting multi-year budgets. The lack of multi-year budgets has knock-on impacts on the effectiveness of the whole public sector to plan and implement systematic changes aimed at tackling inequalities and improving outcomes across Scotland.

30. Fundamentally there needs to be a re-setting of relationships across the UK Government, Scottish Government and Local Government, such that there is greater focus on what can be achieved over the longer term for our communities. This is not achieved through being the recipients of one-year financial settlements. The ability to plan and think outwith 1-5 year time horizons is needed, with all spheres of Government playing an effective and equal part.

Recognition of the whole fiscal landscape in Scotland is needed

31. The forthcoming review of the UK Fiscal Framework should address the relative disbenefits to Scotland by taking greater cognisance of the structural differences in the Scottish and UK economies and to encourage greater innovation in tax policy, rather than mitigating against this. The current Framework does not recognise the interplay between Scottish and local fiscal powers and needs to take account of the whole fiscal landscape, including local fiscal empowerment. Work on a Local Government Fiscal Framework should tie into reform of the Fiscal Framework system as a whole and should provide a fair and equal basis across the fiscal landscape in Scotland.

32. As an example, the Scottish Government is likely to seek increased borrowing powers as part of the review of the Fiscal Framework, with a loosening of conditionality. However, at the same time Local Government finds that it is being hampered in seeking to maximise flexibility in how it accounts for its own Capital borrowing. Local Government proposals for a more flexible approach to the longer-term accounting treatment of Local Government assets (service concession approach), which was offered to assist Councils in the short term to help manage the financial impacts of Covid. With the Scottish Government wishing to tie in these proposals with a wider review of Local Government Capital accounting, this acts counter to Local Government's ability to use local fiscal flexibility.

33. This is not merely an accounting exercise- it has genuine implications for funding Local Government services into the future, whereby Councils have argued that extending the reach of the service concession regulation over the medium to longer term is both in accordance with good accounting practice and gives greater fiscal ability to finance the delivery of local services. Any changes in this area which removed statutory mitigation will impact on what Councils can afford to invest in even if transitional arrangements are put in place. Councils take a long-term view of what is affordable to invest in and it is imperative that at this critical time that the capacity to invest in assets is not eradicated as a result of an optional change in accounting practice. This is linked to the need for Councils to play an active role in economic recovery and be able to invest in assets, deliver on net zero and create employment opportunities.