



Draft Budget 2021/22

Submission to the Local Government and Communities Committee

COSLA, the Convention of Scottish Local Authorities, is a membership organisation for Local Government in Scotland. We provide political leadership on national issues, and work with councils to champion their vital work and to secure the resources and powers they need. Our vision, as set out in the [Blueprint for Local Government](#), is that Scotland's communities are sustainable, vibrant places to live, work and visit. The wellbeing of our communities is central to this vision and COSLA has called for fair investment in Local Government which includes longer-term financial planning, protection of core Council budgets, and increased flexibility to make financial decisions that best respond to local need.

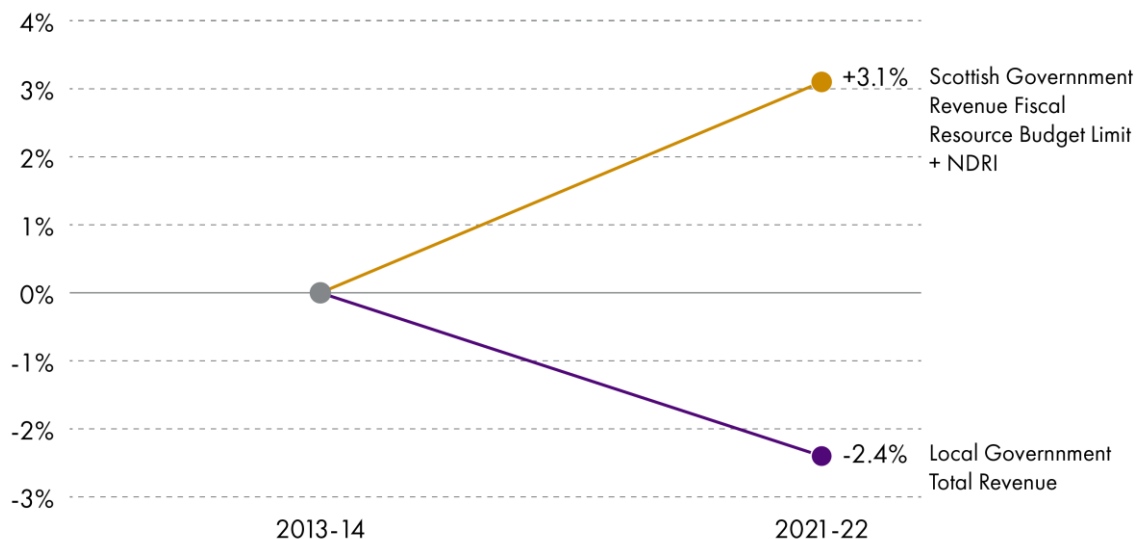
1. COSLA welcomes the opportunity to submit written evidence to the Local Government and Communities Committee on the draft Scottish Budget for 2021/22. This submission has also been endorsed by CIPFA Local Authority Directors of Finance and SOLACE, the Society of Local Authority Chief Executives. This submission provides the Committee with COSLA's response on the draft Local Government Finance Settlement for 2021/22 as contained within the draft Scottish Budget. We are also taking the opportunity to provide the Committee with background information which supports our response. We look forward to providing oral evidence when the Committee meets on 10th February, where we can pick up on the key financial challenges facing local government.

COSLA's response to the draft Scottish Budget 2021/22

2. COSLA Leaders have discussed the Budget and agreed that the following points should be made in all future lobbying and engagement with the Scottish Government and across all parties in the Scottish Parliament:
 - That funding to support a freeze in council tax for the coming year should be baselined to prevent Councils having to double the Council Tax increase or cut services in future years;
 - That a fair pay increase for Council staff which not only meets increased costs of living but also starts to restore the real cuts in wages in past years, is fully funded by Scottish Government through the settlement;
 - That the full loss of income incurred by local government including ALEOs, due to the Covid pandemic should be reimbursed by Scottish Government;
 - That the cuts in capital funding over recent years, should be reversed to allow Councils to invest in facilities, housing and infrastructure to support our communities and local economies particularly in the context of recovering from the COVID-19 crisis.

COSLA's "Budget Reality"

3. COSLA has published a "Budget Reality" briefing which is attached at the end of this submission. The briefing sets out the financial implications of the draft Local Government settlement, with the key points being that there is a cash increase in core Revenue budget of £94m, with no change in Capital core funding. Whilst the additional core Revenue funding is welcomed, this is a modest increase and needs to be taken in the context of our ask for fair funding for Local Government which shows that a gap remains of £362m for Revenue and £20m for Capital (this being an absolute minimum ask).
4. Additionally, Local Government continues to respond to the challenges presented by the Covid-19 pandemic – during 2020-21, costs incurred (including loss of income) are like to be around £770m. Alongside the Budget, for 2021-22, Scottish Government announced a non-recurring £259m of flexible COVID- related funding, as part of the overall package for Local Government. Whilst the flexibility is welcomed, this would still leave a shortfall of over £500m, if COVID costs for next year are similar to this year.
5. The financial challenges for Local Government are also articulated within the recently published SPICe briefing which shows a reduction in Local Government Revenue funding since 2013/14 growing to 2.4% in *real* terms, which is in contrast to a 3.1% increase in Scottish Government Revenue funding over the same period- Figures 3 from the report has been presented below:



Source: [Local Government Finance: Budget 2021-22 and provisional allocations to local authorities | Scottish Parliament](#)

6. As SPICe explains "*In recent years explorations of these figures have shown that, against a fixed baseline of 2013-14, and in real terms, the local government revenue budget has either fallen at a steeper rate than the Scottish Government equivalent, or has fallen while the Scottish Government revenue budget has increased, and that*

the local government revenue budget as a share of the Scottish Government equivalent budget has fallen”.

7. Figure 3 (*the graph above*) shows that this trend has continued. Looking at the historic allocations to local government, compared to the Scottish Government's allocation from the UK Government, from 2013-14 to 2021-22, local government total revenue reduced by 2.4% in real terms (or -£276 million). The Scottish Government's fiscal resource budget limit from HM Treasury, plus NDRI, increased in real terms over the same period, by 3.1% (or £1,013.9 million). By comparison, when looking at the 2020-21 Budget, this increase was a -3.8% change in real terms for local government, and a 2.6% real increase for the Scottish Government.
8. Between 2013-14 and 2021-22, the local government revenue budget as a share of the Scottish Government equivalent reduced by 1.9 percentage point, from 34.7% to 32.8%.”

The Financial Context for Local Government

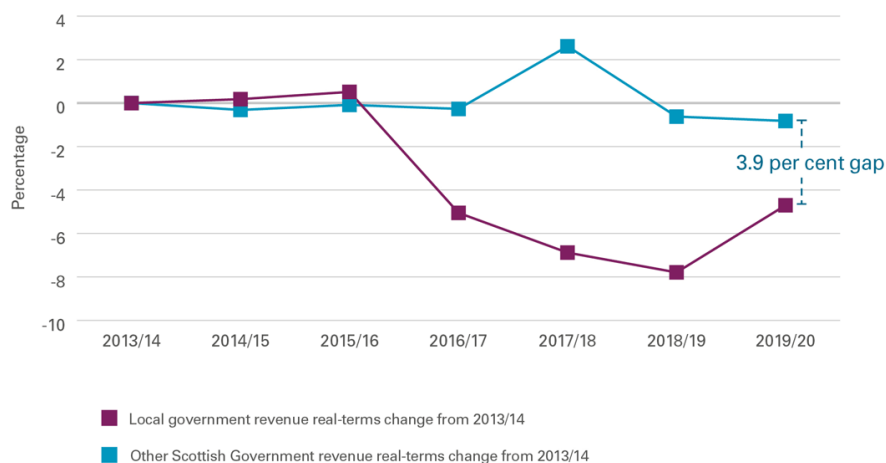
9. In COSLA's [Evidence](#) to the Committee as part of its pre-Budget scrutiny, we set out the significant challenges that Councils are facing in the wake of the Covid-19 pandemic. We urged the Committee to consider the role that Local Government plays in the well-being of Scotland, its communities, and its businesses. We also set out an ambitious vision for the critical role that Local Government will play in the recovery and renewal of Scotland and our local communities.
10. The COVID response from Local Government has magnified this critical role in every community across Scotland. While Local Authorities have shifted in and out of varying levels of local lockdown, councils have continued their monumental efforts to see their local communities through the worst of the pandemic. Councils have delivered, and continue to deliver, on a significant number of business support grants at short notice; schools and early years settings have adapted to face to face, “on-site” provision for vulnerable children and children of key workers, while teachers and support staff have pivoted to remote learning quickly. These efforts have all taken place while essential services – including waste, social care support, benefits advice, and environmental health services – have continued to be delivered. However, councils' ability to continue this flexible ‘whole-system’ response is not sustainable without fair funding. The challenges of Covid-19 will persist, which only strengthens the case for fair funding for Local Government in 2021/22 and longer-term financial certainty.
11. Ahead of the publication of the Scottish Budget, COSLA published '[Respect our Communities, Protect our Funding](#)', which focuses on the role of Local Government during the pandemic, the lifeline support that has been provided by councils, and the critical role in supporting communities during recovery and renewal. However, the key message is that this “twin-track” approach i.e. continuing to support individuals and communities *and* supporting renewal and recovery will all require fair funding.

12. The financial challenges presented by Covid-19 have been severe. This view is supported by the Account's Commission's recent publication [Local Government in Scotland Financial Overview 2019/20](#), which highlights a gap between the funding provided by Scottish Government (through UK Government COVID consequentials) and councils' estimated financial impact as a result of Covid-19 – which sits at approximately £767m, just over half of which is represented by lost income. The report estimates that funding announced to date from Scottish Government only covers 60-70% of the overall impact.
13. This leaves councils with a significant financial gap – one that is amplified by years of cuts to general revenue funding and replaced with a growing trend of highly fragmented and directed funding, out with the main Local Government Settlement. The Accounts Commission's Financial Overview report also highlights that Local Government revenue funding has fallen over the last 6 years by 4.7% in real terms, compared with a real-terms decrease of 0.8% for the Scottish Government. This structural reduction in funding comes *before* the financial impact of Covid-19 and makes a focus on improving local outcomes even more challenging.

Exhibit 3

A comparison of real-terms changes in revenue funding in local government and other Scottish Government areas

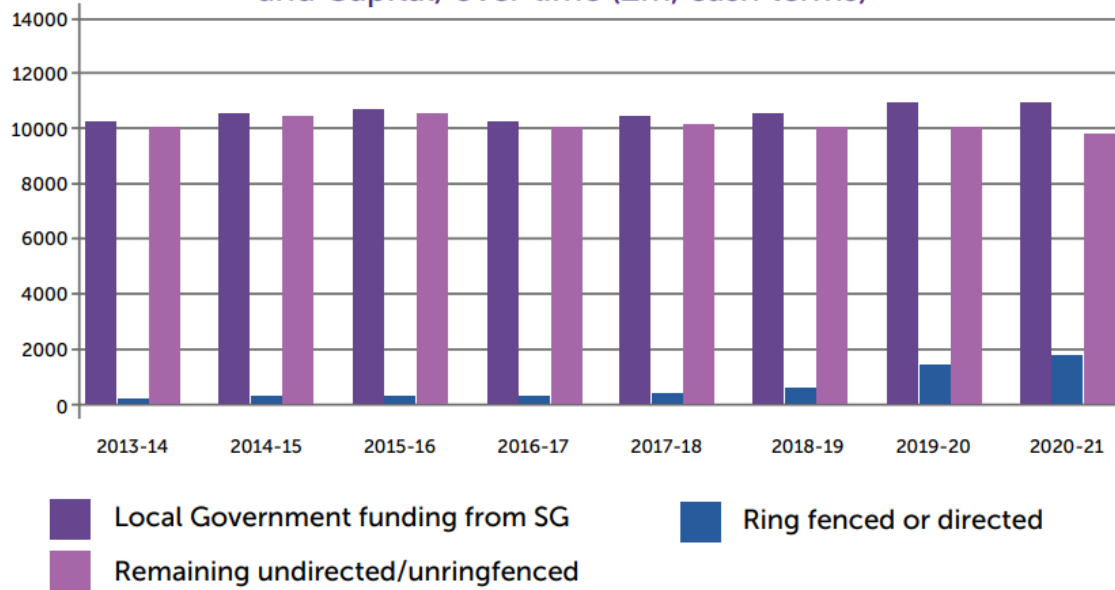
Over the last six years local government revenue funding from the Scottish Government fell by 4.7 per cent, while other Scottish Government revenue funding fell by 0.8 per cent.



Source: Finance Circulars 04/2020 and Scottish Government budget documents (June 2020 ONS deflators)

14. The graph below, from COSLA's lobbying document, shows a significant increase in the level of ring-fenced or directed funding that has come to Local Government, with the highest levels yet in 2020-21.

Change to Local Government Funding (Revenue and Capital) over time (£m, cash terms)



15. This impedes local decision-making and negatively impacts on services that are funded from Local Government’s “unprotected” core budget. A reduction in Scottish Government funding – and a Settlement that comprises of centrally directed national policy commitments —will result in cuts to these core, essential council services. Libraries, leisure facilities, family and employability support, waste services, and our workforce are all essential to the ongoing recovery and renewal of local communities. Many of these core services are the very solutions to tackling the root causes of poverty and inequality and will be essential to supporting economic recovery, making Scotland a more equal and socially just place to live. Without adequate funding for these essential services, the impacts of Covid-19 will be deeper, longer lasting, and inequalities will widen.
16. Whilst the additional funding provided by Scottish Government to deal with COVID during 20-21 has been welcome, it has magnified the problem of multiple, small pots of in-year funding which are directed at national policy commitments. Between April and December 2020, there were over 30 different ring-fenced and/or directed pots of funding to address Covid-19. These ‘pots’ all come with additional administrative demands, including grant offers, reporting, grant claims and monitoring of spend in line with financial year requirements. This varies significantly from the approach taken in England where tranches of ‘general purpose’ funding have been released to Councils to respond to local challenges caused by the pandemic.
17. The Scottish Government’s ‘drip-feeding’ approach to funding has created instability and uncertainty for councils and impedes their ability to respond to local need. It also demands a significant amount of staff time away from other critical work areas (as well as increased bureaucracy for Scottish Government officials).
18. COSLA’s *‘Respect our Communities, Protect our Funding’* also highlights the varying rates of increase across public sector budgets. For example, whilst Local

Government saw an 11% cash increase between 2013/14 and 2020/21, this is surpassed by a 21% growth in the Scottish Government budget and a 29% increase to the Health Budget during the same period. Despite this increase in cash investment, national health outcomes have not improved – for example, drugs death rates are tragically high. The deterioration in funding for Local Government does not reflect the role that councils play in improving health and well-being which is essential to improving the health of the nation.

19. It is crucial that Local Government receives a fair revenue settlement that allows councils to invest in their infrastructure, including borrowing costs and ongoing lifecycle and maintenance programmes:

- Capital programmes are funded through a variety of means and a significant element is done through borrowing. With recent reductions in capital grant councils have had a need to borrow more to meet their infrastructure aspirations. However, declining *revenue* resources impact on councils' ability to affordably borrow.
- Reducing revenue also diminishes councils' capacity to support financially sustainable long-term lifecycle and maintenance programmes, which are vital in terms of best value and the protection of assets for use by current and future generations.

20. Due to the intrinsic inter-relationship between the two areas, fair funding for **both revenue and capital is therefore essential** to allow councils to deliver vital services sustainably, from assets that are fit for purpose, and to support the economic recovery which is even more critical at this point in time. Investing in Local Government will enable councils to properly fund the services, supports, buildings, town centres, people, and infrastructure that create healthy and vibrant communities, and support health and wellbeing in its widest sense- these aspirations are clearly laid out in COSLA's Blueprint for Local Government.

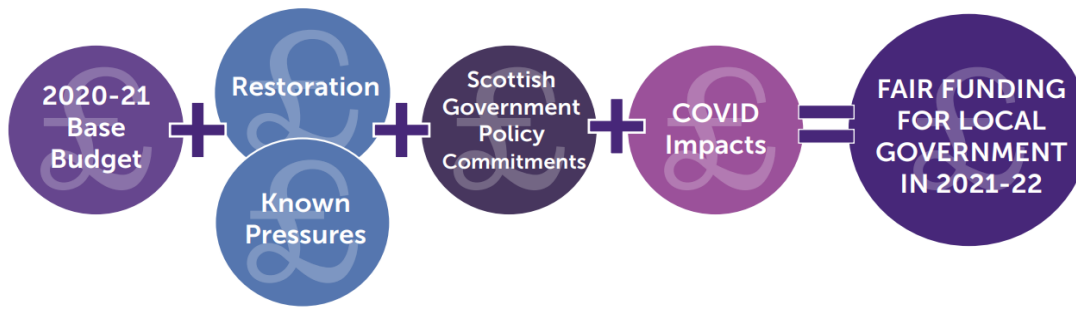
21. COSLA's '*Respect our Communities, Protect our Funding*' document clearly sets out Local Government's key asks ahead of the Budget 2021/22:

Our Ask	Why?
Any additional COVID-related funding for 2020-21 from UK Government must be passed on to Local Government – there remains a gap of at least £360m that must be addressed;	<p>Even after accounting for additional funding from Scottish Government to flexibly deal with Covid-19 financial pressures, COSLA's cost collection exercise shows a gap of at least £360m. A significant element of this figure comprises loss of income and excludes education costs (which we are collecting separately) and Health and Social Care costs.</p> <p>POST BUDGET NOTE: COSLA has welcomed the additional funding of £110m announced by the Cabinet Secretary for Finance to cover loss of income in 20-21, taking the total to</p>

	£200m for this purpose. However, there remains a gap
Any cash increase for 2021-22 from UK Government must be passed on;	As highlighted by SPICe in their Facts and Figures 2013-14 to 2020-21 document, “The local government revenue settlement as a proportion of the Scottish Government revenue budget decreased by 2.6 percentage points between 2013-14 and 2019-20”. Local Government must benefit from the overall cash increase to the Scottish Government in order to protect services. POST BUDGET NOTE: As per SPICe’s most recent briefing, it would appear that this issue still persists (see para 5)
Additional social care costs (for delegated services) should continue to be met from Health consequentials during 2021-22 (c£300m additional for 20-21);	The total funding allocated to Local Authorities for delegated social care services to date is £223m. These substantial additional costs must continue to be met as the impacts of the pandemic continue well into the next financial year.
All known Scottish Government policy commitments must be fully funded;	These are commitments that councils must deliver on – if they are not fully funded, then this will further erode core budgets
No cap on council tax - this must be a truly local tax;	Local Leaders are democratically accountable to their electorate and will be sensitive to the situation of households this year when setting council tax. Years of council tax freezes and cuts to core budgets leave councils with minimal revenue-raising ability. Furthermore, years of freezing this tax erodes the very base on which councils rely and simply stores up problems for the future POST BUDGET NOTE: the draft Local Government settlement includes £90m of funding to freeze Council Tax increases for one year. This therefore continues the precedent of removing local determination.
The settlement should respect the efforts across “one workforce” and allow councils to make a pay award that aligns with all other parts of the public sector;	The Local Government workforce is large, diverse, and its value has been proved beyond doubt during this pandemic. The settlement should allow councils to make a pay award that recognises this effort and can be aligned with other parts of the public sector (where Scottish Government sets the “benchmark”)

	<p>POST BUDGET NOTE: as it stands, the Budget would not allow Local Government to align a pay award with other parts of the public sector without impacting on core budgets and essential services.</p>
An end to small pots of ring-fenced, highly directed funding out with the Settlement;	<p>These 'pots' all come with significant additional administrative demands, create instability and uncertainty for council finances, and impede local democratic accountability.</p>
Local Government's wider role must be respected and funded - this includes adequate capital for affordable housing.	<p>Communities will be feeling the impacts of Covid-19 for many years, especially the most vulnerable. Councils need investment to protect and respect the needs of their communities.</p> <p>POST BUDGET NOTE: the Cabinet Secretary for Finance has written to COSLA, following the Scottish Government's announcement, in parallel to the draft Scottish Budget, of a 5-year Capital Spending Review. This shows a broadly flat cash position for Local Government Capital funding over the next 5 years.</p>

22. The document also sets out that in order to address the significant financial pressures presented by Covid-19, as well as fully funding its own policy commitments, Scottish Government must present the following as a minimum for the Local Government Settlement:



	20-21 Base Budget	Restoration (3%) Known Pressures (2%)	Scottish Government known policy commitments	COVID impact	FAIR FUNDING for 2021-22
Revenue	£10,668m	£320m £213m	£164m	£770m*	£12,135m
Capital	£607m**	£18m £12m			£637m

*This figure is based on COSLA's full year cost collection exercise for 20/21 and does not include Education recovery costs, nor Social Care (funded via HSCPs) and is indicative of the scale of additional costs incurred by councils during a pandemic of this nature.

**Scottish Government presented £778m capital in Circular but this included £121m ELC and £50m Heat Network early adopters

23. The 2020/21 **base budget** figure above comprises the total revenue and capital funding that was included in last year's Settlement. Local Government is also asking for a 3% increase to this in order **to restore** council budgets after years of council tax freezes and real terms cuts to revenue funding. We are also seeking an additional 2% for the **known pressures** which exist in the system, including pay claims, ongoing loss of income, inflation, and EU transition. The £164 Scottish Government **policy commitments** include ELC expansion, additional teachers and support staff (COVID money), Carers Act implementation, Living Wage in social care, additional community justice services, and mental health and wellbeing supports for 5 to 24-year-olds. Lastly the £770m **COVID impacts** were based on COSLA's full year cost collection exercise.
24. Only with this level of fair funding can councils begin to recover from the significant financial pressures presented by Covid-19 –the effects of which will extend well into the 2021-22 financial year and beyond. As outlined in "Budget Reality", the draft Budget, as it stands, will not address the financial pressures, will impact on core services and will impede recovery.
25. The final Scottish Budget 2021-22 must recognise the fundamental importance of Local Government's role and the severe financial impacts of Covid-19.

Local Government Settlement 2021/22



#BUDGETREALITY (UPDATED 1 Feb 2021)

Based on Finance Circular 1/2021 issued on 1st February 2021

£ Local Government core budget

Revenue core budget: £94m (0.9%) increase

Capital core budget: No increase

REVENUE for 2021/22

Revenue announced: £11,003m

Cash increase presented as: £335m
(compared to 2020/21 base of £10,668m*)

Scottish Government commitments: £241m

Increase to Revenue budget: £94m (£335m - £241m)

*base is pre-COVID circular 2/2020, 10 March 2020

Scottish Government commitments (existing + as per Finance Circular 1/2021)

Early Learning and Childcare (1140)	£59m
Carers Act 2016	£28.5m
Living Wage in Social Care uplift	£34m*
Uprating of free personal and nursing care payments	£10.1m*
Specific grant support for Inter-Island Ferries	£7.7m
Additional funding for Discretionary Housing payment	£11.3m
Compensation for councils who choose to freeze their council tax at 2020-21 levels	£90m
Total of Scottish Government commitments	£241m

*COSLA has not yet had the opportunity to work through the calculations behind these figures.

NOTE: Within COSLA's Budget Reality issued on 28 Jan, policy commitments totaled £260m. However, Scottish Government has since confirmed that **£15m for Community mental Health and Wellbeing supports and services** and **£4m for Community Justice** will be paid out with the Local Government Settlement and that the Scottish Budget document (Table 5.15) will be updated accordingly. This therefore reduces the total in the table above by £19m.

Local Government Settlement 2021/22

#BUDGETREALITY (UPDATED 1 Feb 2021)



COSLA

CAPITAL for 2021/22

Capital announced:	£617m
Cash increase presented as:	£10m (compared to 20/21 base of £607m*)
Scottish Government commitments:	£10m
Increase to capital budget:	£0

*Scottish Gvt presented £778m capital in Circular but this included £121m for Early Learning and £50m for Heat Network early adopters so were excluded from base

Scottish Government commitments

Flooding	£10m
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COSLA asks in “[Respect our communities: protect our funding](#)”

For CORE SETTLEMENT 2021/22

COSLA asked for:	£697m additional funding
Scottish Government announced:	£335m
Revenue shortfall against COSLA ask:	£362m

COSLA asked for:	£30m additional funding
Scottish Government announced:	£10m
Capital shortfall against COSLA ask:	£20m

For COVID IN 2021/22 (non-recurring)

COSLA asked for:	£770m additional funding*
Scottish Government announced:	£259m flexible funding
COVID shortfall against COSLA ask:	£511m

*based on COSLA's full year COVID cost collection for 20/21