Local government funding challenges

March 2015

Jo Armstrong
John McLaren

AP/2015/001
EXECUTIVE SUMMARY

- A wider debate on local government’s role in the delivery of public services in Scotland is now needed. The recent declines and upcoming small, at best, real terms increases in the funding local government receives from the Scottish government means that the growing demand for such services will severely test the ability of local authorities to supply them.

- Between 1999-2000 and 2014-15, funding from the Scottish government to local authorities rose by over 40% in real terms. However, funding peaked in 2009-10 and, after adjusting for Police and Fire, is expected to be at least 10% lower by 2015-16.

- Given the likely increase in demand for services since 2009-10, it is hard to see how the same quantity of service can be delivered with such a diminished budget. Local authorities have to balance their budgets so, given this financial outlook, yet more efficiency savings will be needed. However, these will be increasingly hard to deliver following the years that such arrangements have already been in operation.

- Seeking to charge service users more may be one option available to local authorities to help fill any funding gaps although, to date, these have not markedly increased. What seems more likely, perhaps, is that non-statutory services will be at even greater risk, as will paying for service quality levels that are deemed to be over and above the minimum necessary.

- While both Scotland’s local authorities and GPs and Primary and Community Care professionals are securing a declining share of the Scottish government’s total budget, the opposite is true for NHS health boards. This may have a detrimental impact on how well integrated care in the community can be implemented.

- The Scottish government is increasingly relying more on non-domestic rates income (NDRI) to boost its coffers and less on council taxes. In 2009-10 Council Tax amounted to 5.6% of the total revenues raised and NDRI 5.7%. By 2015-16 the respective shares are estimated to be 5.3% and 7.5%. It would need an increase of around 50% in Council Tax receipts to return them to the position of near parity with NDRI in 2009-10.

- The independent Scottish Fiscal Commission is seeking more evidence from the Scottish government to support the current projections for NDRI of £2.7 billion (2013-14 prices) by 2015-16. Whilst local government is not currently exposed to any NDRI funding shortfall, this position may change in the future. Currently local authorities are seeking to share in the upside potential from NDRI-related local commercial developments, so sharing in any downside may also become a reality.

- Additional year-on-year borrowing may offer an alternative route to funding rising service provision, although this route can only secure longer-term investment and associated savings rather than fund annual revenue expenditures. However, the ability to secure net additional debt may well be limited for some local authorities, given relatively static, in real terms, future increases in Scottish government revenue support.

- Post Smith Commission, new fiscal rules are under development between the UK and Scottish governments, as they seek to establish the Scottish government’s overall borrowing capacity and limits. Given the importance of borrowing to local authorities, it is perhaps
necessary for these bilateral discussions to be expanded to a tripartite arrangement, to ensure local government’s debt and borrowing position is fully preserved.
INTRODUCTION

Scotland’s local authorities are currently setting their budgets for 2015-16. In doing so they are also becoming more concerned about the challenges they face on service delivery as well as on the sustainability of the Scottish government’s current local authority funding arrangements.

The debate is evolving from a simple one about how to deliver more for less (i.e., through yet more efficiency savings) to one that is beginning to discuss just what local government’s role is in terms of ensuring that future demand for both statutory and non-statutory services can be met.

Local government receives almost one third of the Scottish government’s total annual budget, exceeding £10 billion in financial year 2014-15. This funding supports the delivery of many services which affects the lives of all Scots, from primary and secondary education to care and support activities in the community and from local roads maintenance to environmental services. These services are essential. They help in the development of Scotland’s future skills base; they ensure local communities operate effectively; and they support less able citizens to receive suitable support and care in the community.

With the Scottish government’s overall budget having to accommodate on-going real terms cuts (and only small cash terms increases), whilst demand for public services continues to rise, this Fiscal Affairs Scotland Analysis Paper looks at what the possible implications of this situation might be for Scotland’s local authorities.

In particular, the paper assesses:

- local government’s level and share of the Scottish government’s total budget and how this compares to Health;
- the composition of all income sources (eg, including fees and charges) available to local authorities since 2007-08;
- how the relative importance of Council Taxes and non-domestic rates income have changed in the last seven years;
- how local authority borrowing and debt has changed since 2008-09 along with an initial assessment of how the post-Smith Commission powers might influence future local authority borrowing; and,
- how the local government funding position in Scotland compares with other parts of the UK.

LOCAL GOVERNMENT BUDGET LEVEL AND SHARE OF SCOTTISH GOVERNMENT BUDGET

Composition of the local government budget

The Scottish government’s draft budget document presents its funding support to local government in a number of ways. As a consequence, in any assessment of local government funding it is essential to clarify which funding streams are being included (see Box 1). Unless otherwise stated, this paper will concentrate on a definition of Scottish government funding to local authorities that incorporates the resource (i.e. day-to-day spending) and capital (i.e.
spending on investment) grant allocations from the Scottish government along with non-
domestic rates income (NDRI).

Box 1
Funding of Scottish local government\(^1\)

**Scottish government support**

Local government received a budget allocation from the Scottish government of £10.2 billion in 2013-14 (see below).

**Revenue and Capital grant support**, classed as DEL (ie, Departmental Expenditure Limit) accounted for over 45% of the funding with most of it being support for day-to-day revenue expenditure. This funding source is derived through the operations of the Barnett formula block grant that Scottish government receives from the UK government.

Local authorities also receive funds from the Scottish government based on locally raised, but nationally pooled, **non-domestic rates income (NDRI)**. NDRI is classed as AME (ie, Annually Managed Expenditures\(^2\)) in the Scottish government’s budget and, in 2013-14, amounted to £2.4 billion, 14% of total income.

**Other sources of income**

**Council Taxes** are levied locally, based on the value of residential property in the local authority area; a figure that has been capped in cash terms since 2007-08 as part of the current Scottish government’s spending policies.\(^3\)

**Fees and charges** for local authority services, along with revenue from **asset sales** and local authority **borrowing** also add to a local authority’s income sources.

<table>
<thead>
<tr>
<th>Local government revenues, 2013-14</th>
<th>£ billion (cash)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Grants (DEL)</td>
<td>7.3</td>
<td>43</td>
</tr>
<tr>
<td>Capital Grants (DEL)</td>
<td>0.5</td>
<td>3</td>
</tr>
<tr>
<td>NDRI (AME)</td>
<td>2.4</td>
<td>14</td>
</tr>
<tr>
<td>Total support from Scottish government</td>
<td>10.2</td>
<td>60</td>
</tr>
<tr>
<td>Council Taxes</td>
<td>2.0</td>
<td>12</td>
</tr>
<tr>
<td>Fees &amp; Charges</td>
<td>4.8</td>
<td>28</td>
</tr>
<tr>
<td>Total Income</td>
<td>17.0</td>
<td>100</td>
</tr>
</tbody>
</table>

*Note: The table excludes any additional borrowing that was raised for use in 2013-14 (see Figure 4).*

*Source: Scottish government draft budget 2015-16; Scottish Local Government Finance Statistics, 2014-15*

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\(^1\)To compare the Scottish government’s funding allocations to local government with other budget recipients (e.g., Health etc) requires a degree of caution. Simply comparing DEL grants is insufficient.

\(^2\)AME spending is driven by demand that is not under the control of Scottish government (e.g., public sector pensions and non-domestic rates income) and so is currently funded directly by HM Treasury or is subject to variability depending on what incomes are raised by the local business tax.

\(^3\)The Scottish government has allocated an additional £70 million for 2015-16 as its estimate of what is required to maintain the real value of the council tax.
Cash and real terms local government budget allocations over time

There have been considerable changes in funding responsibilities since devolution, 15 years ago. As a consequence, year-on-year comparisons of how allocations from the Scottish government have changed, on a like-for-like basis, can only be accurately made between 2013-14 and 2015-16.

Notwithstanding this change over time, since 1999-2000 funding from the Scottish government to local authorities (as previously stated, defined as DEL resource, DEL capital and NDRI) rose by over 40% in real terms; from £7.4 billion to £10.4 billion in 2014-15. However, this overall increase has been erratic, as Figure 1 shows, with funding peaking in 2009-10, in both cash and real terms.

Figure 1: Scottish government’s budget allocation to local government, £ million (cash & 2013-14 prices)

Note: The 2013-14est is the estimated outturn figure; 2014-15b is the budget estimate figure and 2015-16db is the draft budget figure all taken from the Scottish Government’s Draft Budget 2015-16 report.


For example, in 2013-14 Scotland’s local government budget allocation was reduced by £1 billion, reflecting the reallocation of funds to accommodate the establishment of the newly established Police Scotland and the Scottish Fire & Rescue Service.
Local authority obligations

Local authorities have a legal obligation to balance their budgets. They also have a legal obligation to provide statutory services (primary and secondary education and adult social care, for example). The challenge then is how to meet both obligations when the Scottish government’s grant support is declining in real terms but demand for services keeps rising.

This issue was clearly outlined in the Local Government and Regeneration Committee’s recent budget report\(^5\), where it has been suggested the non-statutory services are at risk as local authorities seek to fund such obligations:

“In general, local authorities stated that while statutory services and agreed priorities were delivered over the period, discretionary services have been affected by the need to achieve savings.”

It is questionable how much of this balancing of the books can realistically be delivered by further efficiency savings, given the number of years such arrangements have already been in operation. Will significant increases to fees and charges help fill any emerging funding gap and, if so, what will this mean for those least able to pay? Will non-statutory services be the loser and/or will service quality be sacrificed?

Local government and Health’s share of total Scottish government budget\(^6\)

Local government’s share of the Scottish government’s total budget has been declining since 2009-10 (see Figure 2).

Up to 2012-13, the chart illustrates a widely understood trend, with Health’s share of the budget slowly rising, due to the real terms protection of the NHS budget. However, in recent years this expected trend has not continued\(^7\). In particular, there has been (i) a large fall in the local government share in 2013-14; (ii) a decline in Health’s share post 2013-14; and (iii) a sharper decline in Health’s share than in local government’s share, post 2013-14.

Why has this occurred?

- on (i), Police and Fire services were transferred out of the local government budget in 2013-14;
- on (ii), funding for public sector pensions and student loans was significantly increased in 2014-15 and 2015-16, funds which whilst part of the Scottish government’s overall funding package, are not classed as DEL (ie, they not under the control of the Scottish government);
- on (iii), the Department of Work and Pensions (DWP) transferred the responsibility of managing the Council Tax reduction scheme directly to local authorities across the UK.

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\(^6\) The definition for Scottish government’s budget is total DEL plus total AME.

\(^7\) If the denominator was only DEL+NDRI, Health’s share would still fall but by a smaller amount. This highlights the importance of making it clear just what has and has not been included in the denominator when quoting % shares for local government, or any other budget recipient.
Taking these special factors into account, the recent trends of a falling local government share and rising Health share would be seen to continue up to 2015-16, although it is difficult to be precise over the exact pace of change due to the effect of these one-off events.

**Figure 2: Local government & Health as % of total Scottish budget**

![Figure 2: Local government & Health as % of total Scottish budget](image)

Note: These % shares are based on the Total Scottish government funding, ie, DEL capital plus DEL revenue plus AME (which includes non-domestic rates income and monies to fund the pensions of Scotland’s health and teaching professionals).

Source: Scottish Government, Draft Budget 2015-16

Finally, it is worth noting that not all Health related budget lines have received ‘protection’. In fact, only the resource budget (i.e. day-to-day spending) of Scotland’s NHS Boards has seen such protection against inflation. In contrast, Primary Care providers (e.g., GPs) have seen their share of the total Scottish budget fall from just over 4% in 2012-13 to 3.7% in 2015-16. The consequence of this GP funding settlement needs to be factored into any debate on the role of local government in securing effective and meaningful care in the community for the older, and more frail local citizens.

**Non-domestic rates (NDRI) and Council Tax**

It is worth looking a little more closely at the increasing importance being played by NDRI in supporting the Scottish government’s spending commitments and how this contrasts with the role of the Council Tax as a source of income.

As Figure 3 shows, NDRI is forecast to contribute 7.5% to the total Scottish government’s budget by 2015-16, up from 5.8% in the 2009-10 budget. This rise is in contrast to the position with regards to Council Tax, which contributed 5.7% in 2009-10 but which is projected to decline to 5.3% by 2015-16.
Figure 3: NDRI & Council Tax, £ billion (2013-14 prices) & % total Scottish government budget

Notes: (i) Council taxes raised in 2014-15 and 2015-16 are assumed to be the cash equivalent of what was raised in 2013-14; (ii) This Scottish government budget is TME i.e., all DEL plus AME funding
Sources: Scottish Government Draft Budget, various years; Local government Finance Statistics, various years

Council Tax position

In 2009-10, funds raised from NDRI and Council Taxes were very similar, both just over £2 billion. By 2015-16, NDRI raised will be almost 50% higher, in real terms, than what is anticipated will be raised from Council Tax,8 (based on the continued capping of Council Tax at its 2007-08 levels). So, to raise an equivalent revenue to that being projected from NDRI in 2015-16, the Council Tax would need to increase by around 50%.

For equality between NDRI and Council Taxes incomes, large increases would need to be levied on each Council Tax-paying household. This could be partly reduced if either the supply of housing (be that privately owned or in the public / social housing sector) upon which Council Tax was levied increased or the Council Tax banding levels were increased.

Whilst both are possible, the supply of new additional housing will depend on adequate affordable financing being available. And, the willingness to extend the Council Tax bands is a political choice which could potentially feature in one or more of the next Scottish Parliament election manifestos.

8 In agreeing to a cap on what is to be raised locally from Council Tax, local authorities have received a compensating payment from the Scottish government. The extent to which this payment has fully compensated local authorities for the loss in inflationary uplift has been contested. Furthermore, paying local government this compensating amount has reduced what has been available for other Scottish government budget recipients accordingly.
The importance of Council Tax, both as a source of income to fund Scottish public sector and as a highly contentious political issue, is clearly reflected in the Scottish government’s recent announcement\(^9\) of a new Commission on Local Tax Reform. Its aim is:

*“To identify and examine alternative systems of local taxation that would deliver a fairer system of local taxation to support the funding of services delivered by local government.”*

Local government's exposure to variation in NDRI funds

To date, Scottish local authorities have not been directly exposed to any potential shortfall in their income should the projected levels of NDRI fail to be achieved. The Scottish government has guaranteed what will be paid to Scotland’s local authorities, irrespective of what NDRI is actually collected. However, it is important to note that the Scottish government’s projections for NDRI remain open to adjustment. Indeed in its recent review of the Scottish government’s NDRI projections, the Scottish Fiscal Commission\(^10\) poses questions as to how prudent the Scottish government’s projections might be, stating:

*“[The] increase in the forecast growth rate seems to be on the optimistic side, implying an increase in buoyancy as large as anything observed in the available data, rather than an historical average.”*

And makes the following key recommendation:

*“[That research] work continues on improving understanding of the economic determinants underlying the NDRI forecasts as a matter of priority.”*

At the same time as being sheltered from any potential NDRI shortfall, local authorities are seeking to share in any new additional NDRI raised following the development of new local commercial investment\(^11\) currently underway. However, this does then beg the question, if sharing on the upside is fair, what prevents the Scottish government seeking a similar arrangement to share on the downside, should future NDRI receipts prove to be less than budgeted?

**LOCAL AUTHORITY OTHER INCOME SOURCES**

**Sales Rents, Fees, Charges and Other income**

In addition to the Scottish government’s grant support, council taxes and non-domestic rates income, local authorities also rely on raising funds from fees and charges paid by the various users of local authority services and from asset sales.

In the 6 years from 2008-09 to 2013-14, these sources of income contributed between £5-6 billion annually (in real terms), to local authority total funding; around 30% of local authority


\(^10\) See [Scottish Fiscal Commission, October 2014](http://www.scottishfiscalcommission.org/media/media_364407_en.pdf)

\(^11\) Local authorities are seeking to raise additional debt to help new commercial investments that will then be repaid from the associated, additional NDRI income raised.
revenues with little variation over the period even though it covers both pre and post-recession years. Should Scottish government budget contributions fail to deliver sufficient resources to allow local authorities to maintain service levels, service users may well be facing increased fees and charges.

**Borrowing and Debt**

In the period 2008-09 to 2013-14, Scotland’s local authorities increased their borrowing by £2.7 billion (or £1.3 billion in 2013-14 prices); from £10.3 billion to just over £13 billion. This is a 26% cash terms increase, or a real terms increase of just over 11% in 5 years (see Figure 4).

**Figure 4: Local Authority debt: General & Housing Revenue Account, £(000), cash**

![Bar chart showing local authority debt](image)


**Housing Revenue Account debt**

The largest % increase in borrowing has come in the Housing Revenue Account (HRA), which has increased over 50% in cash terms (or by more than 1/3rd in real terms) over the period 2008-09 to 2013-14; up from £2.2 billion to £3.1 billion (see Figure 5).13

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12 Borrowing is normally shown in cash terms since the taxes that are available to repay them are based in cash terms.

13 The figure for debt outstanding for 2014-15 is yet to be published.
This HRA debt has been used to help support the development and maintenance of existing and new social and affordable housing. However, despite this, the number of dwellings retained within the local authority control has fallen from just under 321,000 in 2008-09 to just under 316,000 by 2013-14, with a further small decline projected for 2014-15.

Rental incomes that support the repayment of this HRA debt obligation have not risen as fast. Over the 5-year period to 2013-14, total HRA income\textsuperscript{14} rose by just over 16\% in cash terms (or less than 2.5\% once inflation has been excluded).

The ability to keep servicing this rising HRA debt depends on rents continuing to be paid in full and on time by all the social housing tenants. The recent and projected changes to housing benefits may make this income source much less certain, adding to the local authorities’ funding challenges.

General Fund debt

Over the same time period, General Fund debt has increased by £1.6 billion (or £0.6 billion in 2013-14 prices), a cash terms increase of almost 20\% (or 6\% in real terms). Local authorities have used debt to help defray some of the costs associated with, for example, pension shortfalls and early retirement arrangements.

\textsuperscript{14} More than 90\% of the HRA income comes from social housing rents. The remainder is raised from various factoring charges.
The ability of local authorities to keep increasing their borrowing as a means of securing further, additional spending capacity may now need greater scrutiny. As Figure 6 illustrates, General Fund debt obligations amounted to over 96% of the total annual Scottish government allocation, up from 74% in 2008-09.

Figure 6: Local Authority General Fund debt outstanding (£million, cash) and as a % share of Scottish government’s budget allocation to local government

![Graph showing Local Authority General Fund debt](image)

Source: Scottish Local Government Financial Statistics 2008-09 & 2013-14; Scottish government, Draft Budget 2015-16

This analysis should not be taken as an indication of local authorities’ ability to service their debt obligations. Nonetheless, it is a strong signal that prudent borrowing levels for some local authorities may have been reached. To assume large additional increases as a means of securing service developments may be over-optimistic, at least for those with the greatest debt.

Implications Post Smith Commission

The implication of the Smith Commission on local government funding settlements are as yet unclear and much uncertainty remains around how local authorities will be affected as the new powers are rolled out.

Devolving benefits\(^\text{15}\) to the Scottish Parliament could bring further devolution to Scotland’s local authorities given they have the infrastructure and staff to deliver them locally. Whether this would offer local authorities’ greater financial flexibility is, as yet, unknown.

\(^{15}\) The Scottish government will have the ability to vary some existing benefits (eg, timing of Universal Credit payments, payment to landlords for housing costs) plus introduce new benefits subject to HM Treasury agreement. This will then trigger adjustments to the Barnett block grant, which are yet to be agreed.
What happens to borrowing?

It is not clear post the Smith Commission how local authority borrowing is to be incorporated into the, as yet unspecified, new fiscal framework and any associated fiscal rules that will be negotiated between the Scottish government and with HM Treasury. Will local authorities still be able to independently negotiate increases to their borrowing levels or will they face caps either collectively or individually?

Given the importance of borrowing, Scotland’s local authorities may wish to become more actively engaged in the post-Smith Commission fiscal framework and fiscal rules debate, as it affects borrowing and debt.

COMPARISON WITH ENGLAND, WALES AND NORTHERN IRELAND

Local authorities’ responsibility for providing different public services varies widely across the UK, making it impossible to accurately compare budget settlements. For example, English local authorities do not have responsibility for school-age education. Northern Ireland is planning a significant devolution of powers from the Northern Ireland Executive from April 201516 and Welsh local authorities are currently going through a process of merger17 to deliver efficiencies across the budget.

What then can we say about what has been happening to local government funding in the various jurisdictions?

Institute for Fiscal Studies’ projections

The independent think tank, the Institute for Fiscal Studies (IFS), has estimated18 the cut to English local government DEL budgets (i.e., Department for Communities and Local Government, DCLG), between the period 2010-11 and 2015-16, will be over 11% in real terms, should ring-fencing of funding for English NHS, Schools and International Aid continue.

The IFS has also estimated that the current Barnett formula arrangement has provided an additional financial benefit to the Scottish government and the Northern Ireland Assembly. This has helped reduce the impact of cuts on local government spending relative to local authorities in England and Wales (see Box 2).

Local Government Association

The Local Government Association19 (LGA) has assessed the size of the spending challenge to English local government out to 2019-20, based on their own revenue and spending projections. Between 2010-11 and 2019-20 the LGA projects incomes20 will have fallen by 15% in cash terms (27% real); from £51 billion to £44 billion (cash) by 2019-20. Assuming continued efficiency savings of 1% to 2% per annum, expenditures are projected to rise £7

17 See http://wales.gov.uk/topics/localgovernment/reforming-local-government/?lang=en
20 The LGA estimates incomes from all sources including, grants, local taxes, fees & charges and investment incomes.
billion (cash) from their 2010-11 level, to around £58 billion by 2019-20. This LGA modelling therefore suggests the funding shortfall facing English local authorities by 2019-20 could reach £14 billion.

Box 2

Non-domestic rates income & Barnett

One area that has been the subject of cross UK comparison in recent years is the treatment of NDRI across Scotland, Wales and Northern Ireland.

Currently NDRI is devolved to the Scottish government and the Northern Ireland Assembly. Any revenue raised is for the benefit of each government body, i.e., it does not feature in any Barnett adjustment mechanism. This has not been the case for Wales.

The IFS has recently calculated that this asymmetrical treatment of NDRI has provided Scotland and Northern Ireland with substantial windfall gains.

“By next year, 2015–16, these figures will have grown to £600 million extra for Scotland and £200 million extra for Northern Ireland. In the context of block grants and business rates revenues that together total around £30 billion and £11 billion, respectively, this means funding will be over 2% higher than it would have been had a ‘corrected’ Barnett formula been introduced in 2010.”

The UK Government has sought to correct this asymmetric treatment by devolving NDRI revenues to Wales. Just how this will affect Scotland’s Barnett consequentials in future years is as yet unknown.

CONCLUSIONS

Pressures on service delivery

Scotland’s local authorities are increasingly questioning their role in ensuring the delivery of statutory and non-statutory, locally delivered, public services against a back drop of falling budgets and rising demand.

Local government continues to secure around 30% of the total Scottish government budget, although over the last 8 years this has been declining. Such a decline helps explain why local authorities will continue to look to grow their non-Scottish government income (ie, fees, charges and asset sales) whilst also looking to secure yet more, but probably harder to achieve, efficiency savings. Local authorities may also wish for a return to having greater control over NDRI and Council Tax funds.

Whilst all such options are possible, difficulties arise in each case. For example, the acceptability of raising service charges on vulnerable members of the community may prove politically difficult. Instead, pushing through service cuts and securing services at the cheapest price for their non-statutory needs may prove to be the easier option.
NDRI flexibility

The Scottish government is increasingly relying on NDRI income to support its local government budget allocations. To date, Scotland’s local authorities have not been exposed should projections for this funding source prove to be optimistic. The Scottish government carries this risk in its entirety, although, should there be a shortfall this will have to be accommodated by one or more of the non-Health and non-local government budget recipients.

The more local authorities seek to secure some of any additional NDRI upside, the greater the chance they are opening themselves to be asked to share in any potential downside. The independent Scottish Fiscal Commission has signaled that more research is needed to establish the level of prudence built into the Scottish government’s NDRI projections.

Council Tax freeze

Given the freezing of Council Tax in the last 7 years, the % increase that would be required for this source of revenue source to return to being equivalent to the current level of NDRI revenue would be close to 50%.

Substantially increasing the number of households who pay Council Tax (ie, adding to Scotland’s housing stock) and introducing new, higher Council Tax-bands would help reduce this increase for current Scottish householders. However, the willingness of politicians to push through the reforms needed to secure such an increase remains in doubt.

How to achieve greater local accountability, in terms of raising funds, is an on-going, largely unanswered, question. An issue that will no doubt be discussed by the Scottish government’s Commission on Local Tax Reform.

Social care challenges

Collaborating more closely with GPs and the health sector may be one way for local authorities to achieve greater efficiencies in their delivery of care services locally; a stated Scottish government objective. What is less clear is how a funding allocation mechanism that increasingly appears to favour NHS health boards over primary care (i.e., GPs) and local government will help to secure such a policy objective.

It is also worth noting that the recent announcement of the devolution of all health and social care spending to the Greater Manchester region suggests the UK government is willing to implement what might be viewed as radical measures in the hope of achieving just such efficiencies.

Borrowing challenges

The ability of Scotland’s local authorities to raise debt by borrowing to help deliver local policies in a post-Smith world remains unclear. The negotiations that will establish new fiscal rules and a new fiscal framework to operate between the UK and Scottish governments as part of post Smith Commission arrangements are now underway. As a consequence of the uncertainty in such an important area, Scotland’s local authorities may now wish to reconsider their involvement in the emerging debate on the new fiscal framework, to ensure their own position on borrowing capacity is suitably protected.
Increasing need for careful long-term planning

In general terms, funding for services continue to fall (in real terms) while demand for services continues to rise. Longer-term planning is now, more than ever, needed but what is not clear is how this will happen.

Current budgeting arrangements are no more than short-term at best (ie, up to 3 years in duration normally but only one year at present). Major structural reforms that may now be needed to secure meaningful additional efficiency savings, are politically sensitive, and will take time to plan and implement before efficiencies are delivered.

Are the local and national politicians willing to tackle these challenges to allow effective long term planning? Do we need a new working partnership between central and local government to deliver the necessary changes?

A new era?

Prior to the upcoming general election we are still in the midst, across the UK, of redefining the role of local government in terms of providing (statutory and non-statutory) public services and of raising its own funds. As such, uncertainty is likely to reign for some time yet, making the above mentioned long term planning more difficult.

Time will tell whether the devolution of greater autonomy to Greater Manchester will prove to be a watershed moment and whether it will impact on the powers that any future Scottish government gives to more ‘local’ levels of government.
Contact details

Jo Armstrong  m: 07740 440 766
e: jo@jo-armstrong.co.uk

John McLaren  m: 07429 508 596
e: john.mclaren@btinternet.com

Charity details

Fiscal Affairs Scotland SCIO
SC044827

Website: fiscalaffairsscotland.co.uk