



**Scottish Parliament**

**Local Government and Communities  
Committee**

**A call for views on the impact of COVID-19  
on the financial sustainability of local  
government in Scotland**

**Evidence from ICAS**

4 September 2020

## Introduction

1. The Institute of Chartered Accountants of Scotland ('ICAS') is the world's oldest professional body of accountants and has a public interest remit. We represent over 22,000 members working across the UK and internationally. Our members work in the public and not for profit sectors, business and private practice. Approximately 10,000 of our members are based in Scotland and 10,000 in England.
2. We welcome the opportunity to give evidence to this inquiry.

## General comments

3. Given the timing of this review, it is still too early to share insights from local authority auditors. We believe that it would be valuable to gather auditor insights later in the year when audits are complete.
4. An independent and cross-organisational inquiry to gather evidence and take stock of learning points from the pandemic response, the implications and options for reform, recovery and renewal is important to inform future decision-making. To maximise the opportunity to learn from the crisis, there is value in including longer term strategic options as part of a comprehensive review and planning process, not just short-term crisis management. An inquiry could include:
  - The funding and priorities of local government.
  - Social care needs, provision and funding (including ensuring a funding model which is fair, sufficient and sustainable for the various stakeholders).
  - Economy and employment (needs, provision and funding).
  - Balancing national priorities and local needs and tackling inequalities.
  - The structure of local government services, consideration of how well it is meeting service needs and objectives, longer-term options for service delivery and the potential for further collaboration and efficiencies. This could also include an evaluation of how well placed the structure of local government is for meeting needs, the responsibilities of local government, the split of local and central powers, how this affects services and the effectiveness and balance of local democracy.
  - A review of the Covid-19 response to identify lessons learned and inform a protocol for other potentially fatal or life-changing infectious diseases as well as managing potential bio-security threats.

## Specific questions

### **Question 1: How has COVID-19 impacted the local government sector, in particular, council finances? Which council responsibilities are most impacted?**

5. The range of services provided varies considerably across local authorities and there is variable exposure to commercialisation. Operating and revenue budgets have been especially impacted during lockdown where there is a heavy reliance on trading income from market services e.g. fees and charges, or where there is reliance on a trading arm/ALEO compared to where only core services are provided.
6. The risk exposure is greater for authorities with group structures, commercial and investment activity which can perform well in good markets but struggle in poor markets. These need to be supported by contingency plans and an appropriate buffer of financial security and risk management to protect public funds. For example, the use of the local authority as a guarantor for group organisations raising funds could expose the authority to unacceptable financial risk.
7. The financial challenge will be more acute for those authorities who have had to use their reserves or are planning to rely on reserves to fund future expenditure. Reserves are not a recurring or sustainable source of funding, nor are they a substitute for making difficult spending decisions/ savings. Lower reserve levels leave organisations with less resilience to deal with unexpected shocks and the ability to overcome financial pressures is restrained and more difficult.

8. The degree to which local authorities have fixed financial obligations, such as contractual commitments under PFI/PPP arrangements, also limits their financial flexibility and options in addressing the financial challenges presented by Covid-19, now and in future.

#### *Financial impact<sup>1</sup>*

9. Whilst the impact on the 2019/20 financial statements is likely to be very limited given the timing of the lockdown across the UK, a much bigger impact is anticipated on the financial statements from 2020/21 and beyond. A significant longer-term cost impact is expected from increasing service demand (see paragraph 13) however this varies by council and service area, depending on the services provided and local needs (e.g. demographic profile/ poverty levels). There are still many unknowns and uncertainty so this will need to be further evaluated and monitored.
10. This long tail of increased cost and demand is expected to particularly affect a range of services including social services, with (for example) elderly and looked after children potentially needing greater support, but also education, leisure services, transport and cultural activities which could take a long time get back to pre-virus levels of activity, and may need financial support to adjust, especially if there are further waves. A clear (publicly available) picture of how services vary nationally across local authorities and their risk exposure through using alternative structures (such as ALEOs) and how the risk is managed/contained, is needed to support informed decision-making on priorities, service and financial needs.
11. We also note the impact on housing as they have already faced some pressure with having to find accommodation for early release prisoners and may face significant pressure on their housing/homelessness services as soon as the moratorium on evictions ends.
12. Additionally, financial and operational pressures are likely to affect the delivery of prior efficiency savings plans, which risks compounding budget difficulties. There is still some uncertainty around additional funding and financial settlements. Establishing certainty about the longer-term financial support and use of scenario planning for informing decisions on service options is key to effective planning.
13. Key services affected include health and social care, education and other front-line services which have had to operate with more limited staff resources due to ill-health/ isolation measures, remote working and in accordance with virus prevention measures. Leisure and cultural services have also been heavily impacted and recovery may take longer.
14. The additional costs of and risks to third-party service providers (e.g. care homes and charities) needs to be factored in, as well as service users ability to pay and the equity of differential pricing, where used. For example, private funders of care home residents already pay very substantial fees and councils may pay a discounted rate. Councils may also pay a small portion of private fees where certain conditions are met (e.g. nursing care). The question of whether the existing funding model for care is sustainable, fair, efficient and sufficient to meet the needs of an ageing population should form part of an independent review<sup>2</sup>.
15. Additionally, some perceive that the pandemic demonstrated a lack of strategic co-ordination and appropriate protection of vulnerable people between the NHS, care homes and local authority social care provision which sadly appears to have contributed to increased mortality rates. Important lessons on how to better manage this in the future and whether the appropriate organisational and delivery structures are in place to meet these needs should form part of a future public inquiry.
16. Regarding governance arrangements and maintaining process efficiency during the pandemic, our members found that performance is variable. Some authorities have done well re-establishing governance (council and committee meetings), updating members, redeploying staff and delivering "business as usual" as well as additional activities. A review would help identify what has worked well and lessons for the future.

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<sup>1</sup> For a national outline of the financial impact see [https://www.audit-scotland.gov.uk/uploads/docs/report/2020/briefing\\_200820\\_covid.pdf](https://www.audit-scotland.gov.uk/uploads/docs/report/2020/briefing_200820_covid.pdf)

<sup>2</sup> We note the recent announcements in the latest Programme for Government.

17. An [ICAS members' survey on Covid-19 measures](#) also found variable effectiveness in delivering Small Business Grants. Feedback reported inconsistencies in delivery processes and outcomes across different local authority areas. Comments highlighted a need for clarity on why applications were refused and greater flexibility so that payments reflect need, rather than applying a fixed grant amount whatever the size of business was suggested. We also note that some local authorities were proactive, engaging with central government to achieve clarity on eligibility conditions to maximise their ability to make needed payment.
18. The additional flexibilities provided by the Coronavirus (Scotland) Act 2020 (such as the extension of the reporting and audit deadlines) has been promptly delivered by central government and effective at meeting a need.

**Question 2 - Which parts of local government have been least affected or most resilient?**

19. Please see our response to question 1.

**Question 3 - What help will councils need in future from the Scottish Government or others to overcome the ongoing financial strain?**

20. Given the challenges for authorities to meet the balanced budget requirement<sup>3</sup> and deliver services, further innovation in how to deliver services, the role of technology and how to meet any financial gaps is needed. The significant interaction of some services between local and central government and the high relative contribution of central government funding means this is unlikely to be resolved in the short term and by looking solely at additional local taxation and commercial revenue at a local authority level.
21. Scottish Government support to tackle some of the greatest challenges could help to incentivise reform. Reform options for consideration should be holistic and could include a review of strategic, service and structural reform opportunities to save costs (for example, shared services, the need for 32 local authorities and if the IJB model is appropriate). A question to consider is whether a single body which is fully accountable for providing services and receiving funding may be an alternative to the existing dual accountability model through the NHS and councils. Options for raising revenue and use of alternative debt financing (where sustainable and within the Prudential Code) should also be considered and would be consistent with the principle of linking responsibilities and funding.

**Question 4 - What can the local government sector do, in the short and long term, to manage the financial impact of the crisis? What positive examples can councils and others share about the good work done at local government and community level to lessen the crisis?**

22. Creating resilience could form one principle. For example, setting a culture for incentivising and accelerating transformation, more digital capable service provision; assessing risk exposure of market-led activity and third party service provision; appropriate reserve levels; borrowing alternatives and restructuring of debt; determining the most appropriate structure and organisation to meet service needs and a review of what is an essential/statutory service in today's world.
23. We note that only one authority in Scotland has embarked upon a bond issue to finance its longer-term needs<sup>4</sup>. Appetite to replicate this in other authorities appears limited but given low yields and the positive experience to date, perhaps more sharing of lessons learned and good practice may encourage others to decide whether this might be an appropriate option for them to raise finance. Advantages include potentially better profiling, lower debt servicing costs and an incentive for higher performing authorities to have greater flexibility and choice in funding tools to meet their circumstances. It also requires councils to present their finances and performance in a far more understandable and engaging way to a professional investor audience than is the case with the existing financial statements (which are specialist and complex). This supports the ongoing improvement in transparency and user friendliness of council financial statements which is beneficial to taxpayers and other stakeholders.

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<sup>3</sup> As per Section 93 of the Local Government Finance Act 1992 which requires councils to set council tax that will cover estimated expenses, contingencies etc.

<sup>4</sup> Aberdeen City Council

**Question 5 - How soon do you think the sector will be back to normal? Or is this time for a “new normal” in the way we deliver some council services or practice local democracy? If so, what will it look like?**

24. Considerable change and improvements have already taken place – much to the sector’s credit. This should be a platform for further improvement in a “new normal” environment. Emerging themes include technology, data, resilience, innovation and improvement, tackling inequality and driving through the culture change to make it happen in an appropriate timescale.
25. Opportunities include:
- Rationalising space and property, sub-letting, partnership working across different sectors, shared office space, shared back-office services, more joint provision of services across different council areas.
  - Citizen engagement – the website must be advanced as a key portal to be a more comprehensive and accessible interface, digitalisation to improve service efficiency and delivery. Prompt and effective service response should be the norm, not inconsistently provided across departments or authorities.
26. Local government has a high proportion of staff costs. Current pressures emphasize the importance of delivering a more shared services model to realise the potential savings and efficiencies. This should be on the agenda for consideration as part of the reform, recovery and renewal options.