Our Ref : NH/WG

Your Ref :

Direct Line : 01620 827005

Date 5 May 2023 Members Services

Shona Robison MSP

Deputy First Minister and Cabinet Secretary for Finance

(Sent by e mail to: DFMCF@gov.scot)

Dear Ms Robison

**EAST LOTHIAN COUNCIL – FINANCIAL SUSTAINABILITY**

Congratulations on your recent appointment to the role as Deputy First Minister and Cabinet Secretary for Finance.

I am writing to you in my position as Leader of East Lothian Council and to seek an urgent meeting with you to discuss the on-going financial sustainability facing this Council.

I am acutely aware of the on-going challenges relating to public finances, and in particular the significant range of challenges facing the Local Government sector as a whole. I know that positive discussions are on-going alongside COSLA to seek a ‘New Deal’ for local government including a new fiscal arrangement, and I would strongly urge that this is both critically needed and is concluded with pace to ensure the on-going financial viability of vital local community based services is retained.

However alongside this, East Lothian Council is facing a ‘perfect and escalating financial storm’. Not only are we facing these very acute financial pressures facing all Scottish Councils, we are also being faced with very significant, immediate and on-going recurring financial challenges associated with supporting population growth. Our ambition for growth is closely aligned to the Scottish Governments National Planning Framework and national house building allocations. However, collectively, the financial impact of all of these issues is now placing the Council in what I can only describe as a critical financial situation and we are urgently facing very difficult and real decisions which will see the end of the provision of vital essential services and also mean we simply cannot support our obligations including the construction of enabling infrastructure aligned to growth ambitions.

This Council has a strong track record of delivering high performing services to our local communities. We have been innovative in transforming services which has supported areas such as improved delayed discharges and delivered low cost affordable housing to our local communities in some instances with no wider subsidy. This Council has been working hard to maximise the strategic and economic opportunities of growth, including; the QMU Innovation Hub through the wider City Deal Framework, maximising the opportunities from the Cockenzie site, and also supporting the establishment of a new town at Blindwells that has the potential to deliver 1000’s of new houses and jobs including supporting our shared ambition to support affordable housing. These achievements have all made a considerable contribution to achieving the shared outcomes within the Programme for Government, and are set within the Scottish Governments national strategic priorities Alongside this we continue to explore all potential and feasible avenues which we have at our disposal to maximise resources, and have applied the full use of financial concessions that have been made available through fiscal flexibilities. However, even taking all of this into consideration, we are still being faced with an almost impossible situation, and our obligations to balance our budgets can only be met through some very stark choices. Much of these recurring pressures are aligned to supporting a growing society, and the scale of these simply cannot be solely met by operating more ‘efficiently’. The options now facing this Council are neither palatable, or in the best interests of our communities both local and national, and without some help to support, I accept will have a long term detrimental impact to society as a whole.

I think that it is vitally important to recognise the current and future context facing East Lothian population, which has seen growth of 5.27% since 2016 and is further forecast to grow by 7.2% by 2028. At the same time Scotland’s overall population is expected to grow by just 1.8%. During this time:

* East Lothian’s working age population is projected to increase by 8.6% (which is the joint 2nd highest in Scotland which has a projected increase of 3.3%);
* East Lothian’s pensionable age population is expected to increase by 10.9% (which is highest in Scotland which has a projected increase of 3.7%);
* East Lothian’s school aged children is expected to increase by 17.1% during this same time period.

This Council has a shared ambition to support the opportunities of population growth, however as you will appreciate, growth requires new enabling infrastructure, and on-going revenue costs to support the associated day to day running of these additional assets. It also means that as the population grows, there is also an increased demand on Council and wider public services. Whilst I accept that growth will generate additional council tax revenue aligned to additional houses, you will already be aware that Council Tax income makes up only about a quarter of the Council’s resource base. Given that proportionately, will never be able to meet the wider costs of supporting growth, alongside supporting the escalating range of concurrent financial pressures.

Specifically relating to growth, I thought that it would be helpful to set out below some tangible examples facing this Council and these are set out further below. We have already managed to absorb some costs through wider efficiency programmes but we simply cannot continue in meeting these recurring and growing obligations in addition to the extreme pressures facing local government as a whole.

* A new Community Learning Campus at Wallyford with an estimated recurring revenue cost once fully operational of £11m;
* 3 new primary schools
  + Letham which was operational in 2021; Craighall and Blindwells Primary school, both of which are currently planned for 2024/25.
  + Each Primary School has an estimated running costs once fully operational of around £4m each.
* Increased demand for wider Council services including:
  + Increase in the numbers of children with complex needs;
  + Increased referrals to Childrens Services;
  + Increase in households waste;
  + Increase in adults with complex needs;
  + Increased demand for services such as Council Tax Reduction Scheme, particularly aligned to the Council’s ambition to support affordable housing.

In addition, we should also be mindful that the Council is also being faced with additional costs in meeting the cost of construction and associated borrowing relating to infrastructure growth. This Council has in place a robust framework which seeks to maximise developers’ contributions, but even with this, we are still facing a significant financial shortfall in meeting the capital infrastructure costs and associated financial risks aligned to growth.

As you know, Scottish Councils collectively have been raising concerns about the financial challenges and on-going financial sustainability for some time. Concurrently, East Lothian, is also having to manage the on-going and escalating costs aligned to supporting the growth ambitions. We have now reached a critical point where we simply cannot continue to deliver and support these collective obligations without there being a very significant impact on our communities and existing service provision. The Council budget for 2023/24 was balanced by a 7% Council Tax increase, using over £7.3m reserves, and just over £6.7m further planned savings. Council officers are now forecasting that this Council will need to identify further savings in excess of £50m over the next 4 years in order to ‘stand still’ and much of this is aligned to supporting population growth as I have set out above. This is very stark and a very different scale from other authorities, and for a Council of this size, is simply unsustainable and quite frankly unmanageable.

Whilst we share the ambition for growth, we simply cannot face the financial implications of this alone and an urgent conversation is needed with you to discuss the options now available. The recently approved Scottish Government budget set out that ensuring sustainable public services was one of its key strategic priorities aligned to the continued recovery from the pandemic. To support this, economic growth is one of the key strands to enable economic recovery by means of job creation and inward investment and deliver a sustainable tax base to fund vital public services. This Council is strategically placed to support this ambition and also play its significant contribution. We are already an area with one of the highest working age population, and this is forecast to grow further as highlighted above. This growth creates a positive contribution to supporting the national tax base. It is in no-ones best interests if this essential infrastructure is stopped in order to ensure financial sustainability, which may lead to a detrimental impact on our communities, economic growth and prosperity and curtail taxation opportunities which are used to support the on on-going sustainability of vital public services across Scotland.

The need to develop sustainable medium and long term, integrated, placed based revenue and capital funding allocations is also a shared vision which underpins regional prosperity growth and is clearly articulated in the recently approved Edinburgh and South East Scotland City Region delivery plan and prospectus. Surely at a time when there are so many economic challenges, the opportunities aligned to growth must be supported and maximised.

I have continued to raise the implications that growth is facing on this authority through all available opportunities. I have written to the previous Deputy First Minister in December 2022, and I attach for your reference a copy of this letter at **Appendix 1**. I also met with the Minister for Public Finance, Planning and Community Wealth in July 2022 to discuss these challenges and consider how we can take forward a holistic approach to discussions, and indeed subsequent follow up letters were also sent seeking clarity on the status of the Scottish Government Population Taskforce Action Plan published in March 2021 which made reference to ‘exploring opportunities to support Local Authorities in the short term to deal with the demographic pressures of the present’ (Action 28 Page 90). I am also continuing to pursue discussions with COSLA, and whilst I do believe there may be some opportunity to review the national distribution mechanism which supports national funding, the implications facing East Lothian arising from population growth cannot simply be addressed by an in-ward looking review of distribution given the wide range of concurrent pressures facing local government sector as a whole.

The magnitude of the challenge facing this Council now requires immediate action. I understand a commitment was given by the previous Cabinet Secretary for Finance to consider the potential to establish a ‘Growth Fund’ as one of the potential actions aligned to the Scottish Government Population Taskforce Action Plan, and this would remain an area I would wish to discuss further with you along with other measures which could be put in place to address the pressures outlined above.

This letter sets out the very significant, and immediate financial challenges which this Council is being faced with. I am seeking an urgent meeting with you with a view to considering immediate and sustainable funding to support this Council and our shared commitment to growth. I know the collective concern around these implications has cross party support across the Council and as such it would be appropriate for this meeting to be held with wider political Group Leaders across the Council.

I look forward to an early response from you with a view to setting up an urgent meeting to discuss these challenges.

Yours sincerely



**Norman Hampshire**

**Leader**

**East Lothian Council**

**Appendix 1**

Our Ref : NH/WG

Your Ref :

Direct Line : 01620 827005

Date 9 December 2022 Members Services

John Swinney MSP

Deputy First Minister and Cabinet Secretary for COVID Recovery

(Sent by e mail to: DFMCSCR@gov.scot)

Dear Mr Swinney

**EAST LOTHIAN COUNCIL – FINANCIAL SUSTAINABILITY**

I am writing to you on the back of a recent Special Council meeting which was called by the Chief Executive in conjunction with senior Finance officials in recognition of the escalating severity of the current financial position facing East Lothian and wider concerns relating to its on-going financial sustainability. The need to call a Special Council meeting is not something that happens regularly as a matter of course, and the severity of the challenge in managing the financial environment is now the highest ever risk we have publicly reported on our Corporate Risk register. In accordance with full Council agreement, I agreed to write to you to set out the scale of these challenges and to seek agreement that an urgent review is now needed as to how local government is funded.

I am aware that many of these wider pressures are largely drive by very significant external factors which are equally facing the Scottish Government, public bodies and indeed most businesses and individual households. Your recent letter to Council’s on 1 November 2022, acknowledged that difficult decisions that will need to be taken to balance budgets given rising prices, pay inflation and soaring energy bills, but the scale of these collective pressures, alongside trying to manage the wide range of statutory requirements and national policy initiatives has reached a level that we simply cannot sustain.

Alongside these collective pressures, East Lothian Council, as one of the fastest areas of population growth across Scotland has and continues to face very significant additional resource challenges in supporting national strategic planning and housing allocations. Whilst we continue to share this wider ambition to support growth, this simply cannot be done without a very real and honest conversation as to how the implications of population growth (both infrastructure and recurring revenue consequences) can be supported, and at a time of significant external pressures, this ask is now proving unsustainable. We met with the Minister for Public Finance, Planning and Community Wealth in July 2022 to discuss these challenges and consider how we can take forward an holistic approach to discussions, and indeed subsequent follow up letters were also sent seeking clarity on the status of the Scottish Government Population Taskforce Action Plan published in March 2021 which made reference to ‘exploring opportunities to support Local Authorities in the short term to deal with the demographic pressures of the present’ (Action 28 Page 90). As yet we have not received any formal notification as to what is being considered to support this action. This is also an area we continue to pursue further with COSLA.

The current significant and concerning level of financial challenges has also been set out in a recent joint letter from all of Scotland’s 32 Local Authority Directors of Finance. This unprecedented approach highlights the very real challenges we are now being faced with. I support and share their concerns set out in that letter, including the reference to ‘unfunded’ element of pay deals. These offers as you know were made to our valued workforce in good faith based on a strong commitment from Scottish Government to provide us with flexibilities, and it now seems inevitable compromise will need to be made on national policy commitments if any recurring flexibility can genuinely be delivered. Whilst recognising that the impact will differ across local areas, a national response and solution is urgently needed to derive recurring solutions of this scale, and I would welcome clarity on this position from you.

My Council colleagues unanimously supported that I write to you to set out these challenges and also to call for an urgent review of how local government is funded. It is clear that the collective scale of wider fiscal challenges we are all now being faced with simply cannot be met within the resources which are being made available. In recent years, a significantly enhanced proportion of the Council’s national settlement remains aligned to the delivery of wider new Scottish Government policy commitments, and as such, in reality there remains limited options available to redirect funding streams without an adverse impact on these policy commitments.

The Local Government Finance settlement for 2022-23, and again reaffirmed in the Scottish Government Resource Spending Review published in May 2022, reaffirmed the commitment to agree a ‘new deal’ for Local Government through the development of a partnership agreement and fiscal framework. This commitment now needs to be progressed with urgency and pace, and indeed I would ask that this goes further to call for an urgent review as to how local government is funded. As democratically elected leaders we have a responsibility to our electorate to ensure that we can do our best to deliver and support sustainable public services, and ensure that we are using the available resources in the most effective way that supports our local communities. The scale of the challenges that we are currently facing and which lie ahead simply cannot be met without there being a very real and detrimental impact on our communities and indeed vital local services, and put simply it will mean less money for school food, classroom support, supporting the most vulnerable and ultimately jobs. This is not a position any of us share.

In East Lothian, we want to be part of a joint solution to ensure that we can deliver and sustain essential local services, but this needs an honest conversation, and needs to be supported by an urgent review as to how local government and indeed this Council is now funded to ensure that we can use what resources we have available to us to target areas which are most in need, and in doing so support improved outcomes which are jointly shared. This review must also include providing flexibility on existing national policy commitments. We must urgently move away from targeted funding consistently to support new national policy commitments and provide appropriate and sustainable funding that genuinely empowers and trust local government to do the job that we are elected by our local communities to deliver.

Yours sincerely



**Norman Hampshire**

**Leader**

**East Lothian Council**