

Managing the social risks of public spending cuts in Scotland

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MANAGING THE SOCIAL RISKS OF PUBLIC SPENDING CUTS IN SCOTLAND

Darinka Asenova, Stephen J. Bailey and Claire McCann

This report identifies current practice in five anonymous Scottish local government case studies in their approaches to implementing austerity measures and considers the extent to which they recognise and seek to manage the resulting social risks to vulnerable and disadvantaged groups.

The report focuses on:

- Identifying and measuring the potential and actual impact of budget cuts.
- Drawing instructive comparisons with the approaches of other public and para-public sector bodies.
- Identifying criteria, frameworks and priority-setting processes that are, or could be, used when deciding cuts and reconfiguration.
- Determining whether risk implications for disadvantaged groups are sufficiently recognised by policy-makers.
- Assessing if and how the totality of public services needs of high-risk groups are addressed and whether community stakeholders are sufficiently involved and empowered.
- Identifying existing and innovative financing methods for capital projects and service delivery.
- Identifying best practice and drawing relevant recommendations.

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EXECUTIVE SUMMARY

Overview of findings

The ongoing budget cuts being imposed by the UK Government over its four years of office have already led to a significant reduction of overall public spending. Such reductions pose considerable challenges to resource allocation within diminished budgets of many public sector organisations, especially local authorities. The Equality Impact Assessment (EIA) procedure is being used by all five councils as a proxy risk mitigation tool for managing social risk in protecting disadvantaged and vulnerable communities when deciding cuts to budgets, and reconfiguration of services in the first year of budget cuts from 2011–12. Yet, case studies demonstrate that EIAs are unsuitable as a risk mitigation tool. EIAs fail on at least three counts. First, they do not entail or require specific risk mitigation models and so are poor as a guide for managing budget cuts. Second, some at-risk socioeconomic groups fall outside their scope. Third, the process is driven by compliance with existing statutory requirements arising from equalities legislation rather than being ‘needs based’. Therefore, the apparent security for disadvantaged and vulnerable groups provided by the EIA process is illusory and the wider socio-economic risk issues and impacts of the austerity measures are not explicitly considered.

There was no evidence of the development of ‘bespoke’ risk mitigation decision-making models or criteria. Yet case studies suggest that, combined with service reconfiguration, the focus on immediate cost savings will increase inequality among the most vulnerable communities. The case study local authorities have complied with their statutory duties when making cuts and so discretionary services are being subject to disproportionately large reductions in spending. This compliance-driven approach adopted by the case study authorities misses the interconnectivity of service needs and social risks, creating institutional barriers to collective actions. It is of utmost importance that the case study local authorities develop other existing frameworks to mitigate risks to the full range of disadvantaged and vulnerable socioeconomic groups, not just those with EIA-protected characteristics. Existing frameworks include stakeholder and community engagement, knowledge exchange, networking and sharing of experiences with other local authorities.

Case study local authorities need to be more innovative and develop new, or enhance existing, criteria to meet the needs of disadvantaged and vulnerable service users through a bespoke risk mitigation tool tailored to the local context in moving from a ‘service-based’ to ‘needs-based’ approach in decision-making and risk mitigation. The results of the five Scottish case

studies suggest that there is still a long way to go if social risk mitigation and the consideration of social impact is to be embedded within their decision-making processes and that much more progress needs to be made much faster in this respect.

Assessing and addressing the impact of the UK spending cuts

At this stage it is not possible to assess the *actual* impact of the UK spending cuts on vulnerable and disadvantaged groups. The impact will not become entirely clear for a number of years as cuts take hold. Nevertheless, we have found evidence that local authorities may exacerbate current inequalities across disadvantaged communities in their actions to reconfigure public services as a result of UK budget cuts. Our analysis focuses on establishing existing awareness of the cuts, planning, the initial decision-making frameworks and mitigation measures. The apparent inability of the five Scottish local authorities to assess the actual impact of the cuts on disadvantaged communities is a cause for concern with regard to social risk mitigation. While this can be attributed to the early stages of service reform it is also in part to do with limited data collection processes, both past and present. The existence of data and information gaps relating to several equalities strands makes it difficult to source official statistics or data to assist in compiling evidence of need for particular services. The availability of more robust, more relevant and more comprehensive official data would greatly help the case study local authorities to provide the evidence of need for services.

Service reconfiguration

Undoubtedly Scottish local authorities will experience an increase in demand for services due to increased social risks as a direct consequence of the austerity measures. The case study local authorities already experience increased social risks such as increased prevalence of drug and alcohol abuse, deteriorating domestic situations, and increased unemployment and debt, all as a direct result of the austerity measures. Simultaneously, with budgets being reduced local authorities are entering a period whereby not only must they deal with previously existing vulnerability and disadvantage but also with additional vulnerability and disadvantage created by the spending cuts and the UK welfare reform. This presents a much bigger challenge in service reform across the three stages of efficiency savings, service reconfiguration and increased revenue from charging. At this stage the case study local authorities have not withdrawn any core services, but as budgets are reduced further in 2013–14 and beyond this may have to change. Evidence suggests that the case study local authorities are considering joined-up working with other organisations, service reduction and service transfer in service reconfiguration.

Recognition of risk implications by policymakers and practitioners

Risk implications for vulnerable and disadvantaged communities are not sufficiently recognised in their entirety by policy-makers and this inhibits

risk mitigation. The lack of focus on long-term strategies in the case study authorities can be expected to result in the exacerbation of current inequalities by failing to mitigate the risks faced by their disadvantaged communities in the long term. The challenge for local authorities in dealing with austerity measures is in meeting the short-term 'reactive' objectives (such as crisis intervention and intensive support) alongside investment in longer-term 'proactive' future proofing of services received by disadvantaged and vulnerable groups. In principle, a clear UK Government early intervention policy direction exists to reduce the impact on services in the longer term: councils' health improvement strategy for example. However, in reality local authorities are finding it difficult to focus on preventive measures. The reduction of key supporting services which tend to be discretionary will almost certainly lead to higher financial and social costs in the longer term for local authorities. The challenge is in meeting the 'here and now' while focusing on longer-term strategies in order to avoid exacerbation of current inequalities which will ultimately result in increased social, financial and economic costs. Case study local authorities have complied with their statutory duties when making cuts and so discretionary services are being subject to disproportionate reductions in spending. This approach results in the loss of preventive services, and so in the long term both social and economic costs may be higher than they would otherwise have been with those preventive services still in place.

Identification of criteria, frameworks and priority-setting processes

The use of the EIA framework as a proxy for managing social risk creates a concern that groups on the margins of poverty and disadvantage are at most risk of slipping through the net as they are not protected by equalities legislation encapsulated in the EIA framework. Central government has given councils statutory responsibility for EIAs without ensuring that they have (or will soon acquire) the requisite data, processes and skills to undertake those assessments. The EIA process was developed prior to the economic and financial crisis and as such is not specifically designed to deal with issues arising from the spending cuts. Therefore, even if undertaken fully and augmented as far as possible to guide decision-making to deal with austerity, EIAs remain inadequate and unsuitable for such purposes. The end result is that those vulnerable and disadvantaged groups not protected by equalities legislation will face further increased inequality if not adequately accounted for as part of deliberate decision-making.

The Single Outcome Agreement (SOA) does not reflect the changing priorities of case study local authorities in response to the austerity measures and so needs to be redetermined if it is to guide councils' responses to austerity. In particular, reduced budgets make it increasingly difficult for the councils to focus on preventive measures and early intervention through discretionary services whose effectiveness is difficult to assess and therefore to protect from cuts. Therefore, notwithstanding the SOA, it is these services where major changes are occurring as a result of budget reductions as councils focus on the protection of statutory services.

Approaches of other public sector organisations

Facing cuts to budgets, Scottish universities, NHS Scotland and police authorities are investigating ways to achieve cost savings. Similar to local authorities, they have engaged in an internal reorganisation by reducing staff numbers through voluntary redundancies and are experiencing the public sector wage freeze. Other initiatives include considering the outsourcing and development of strategic relationships with the private and voluntary sectors to deliver services, resulting in shared services and streamlining internal processes. Changes to other public sector organisations can have an impact on the objectives of Scottish local authorities in dealing with the austerity measures. For example, NHS changes to social care and health services for older people can affect service delivery within a local authority thereby promoting the need for increased joined-up working. To truly consider the totality of public services, local authorities need to work closely with other service organisations.

Totality of public services

Consideration of the totality of public services has gained momentum as a result of the UK austerity measures. Local authorities are more conscious of aligning priorities, of collective public service delivery integrated across two or more providers. However, the compliance-driven approach adopted by the case study authorities misses the interconnectivity of service needs and social risks, creating institutional barriers to collective actions.

Community engagement and empowerment

All five local authorities practise certain elements of stakeholder community engagement. However, the extent to which communities' views are then considered as part of the decision-making process is unknown at this stage. Although there was evidence of the retraction of certain proposals due to their unpopularity among voters, this may only indicate that community groups have limited and rather reactive powers of veto, as distinct from being proactively and fully engaged and empowered in risk mitigation decision-making processes. Evidence demonstrating community empowerment is therefore limited.

Future risk mitigation practice

We have identified a lack of mechanisms for considering disadvantaged and vulnerable groups as services are cutback, perhaps exacerbated by a lack of political will or conflicting local priorities. To complement existing processes we propose the development of a prototype decision-making framework that assesses the potentially adverse social impacts of service reconfiguration in conditions of austerity. Drawing on best risk mitigation practice from local authority case studies, this 'social risk impact assessment' (SRIA) model of decision-making will complement the existing EIA and other assessments while encompassing those groups that fall outside the boundaries of specific and statutory equality and poverty criteria. The results of this research clearly identify the need for social risk mitigation to be embedded within the decision-making processes and make clear that much more progress needs

to be made much faster in order to address this glaring deficiency. It behoves each local authority to develop an SRIA procedure by acting in concert with their local stakeholder groups, with the voluntary sector, with other public sector organisations and with national and regional governments to inform their decision-making in order to avoid unnecessarily high social risks (and consequently higher future costs to the public sector) arising from the scale, speed and aggregation of their austerity measures.

1 BACKGROUND TO THE STUDY

The reduction of funding for local authorities in Scotland

In Scotland, public sector cuts were delayed by one year as the Scottish Government's 2010/11 budget had already been set prior to election of the UK Coalition Government and its 2010 emergency budget. Cuts to the Scottish budget in 2011/12 via operation of the Barnett formula (see Appendix 2) and beyond will create real challenges for Scottish local authorities to find additional cost savings as Scotland 'catches up' with the austerity in the rest of the UK. The Scottish public sector is facing the:

most dramatic reduction in public spending ever imposed on Scotland by the UK Government. In 2011–12, we have already been forced to reduce public spending by £1.3 billion, with a 22.9 per cent cash reduction to our capital budget. Under the plans that the UK Government announced in its October 2010 Spending Review, between 2010–11 and 2014–15, we face real terms resource budget reductions of 9.2 per cent and a real terms cut to our capital budget of 36.7 per cent.

(Scottish Government, 2011, page iv)

However, there is increasing scepticism that the UK Coalition Government will be able to meet its (already reduced) target debt reduction by 2015–16 (Bell, 2011). The UK Welfare Reform agenda will undoubtedly have a negative impact on vulnerable and disadvantaged groups, but it is not a devolved issue and Scottish local authorities have little or no control over its negative impacts.

Clearly, prolonged public sector austerity may have considerable cost implications in the longer term for unemployment and for the provision of public services such as health, social care and education. However, this situation may ultimately be much worse than appears at first glance. Most attention focuses on the speed and scale of public service cuts, but, as made clear above, it is the aggregation of those cuts that has the potential to cause the most severe adverse effects because it creates a vicious circle of self-reinforcing social risks. In colloquial terms, a 'multiple whammy' effect may occur whereby specific individuals fall into multiple disadvantaged groups and where there is a risk that cuts in one area of public services have the potential to exacerbate their vulnerability to cuts in other public services.

Given their considerable public services role and their highly developed interaction with the local communities that are most adversely affected by public sector austerity, local authorities are best placed to mitigate the risk of adverse effects on disadvantaged and vulnerable groups and to minimise the potential for exacerbation of social inequalities and social exclusion. Nevertheless, local authorities themselves face considerable financial and organisational risks in attempting to manage the cuts in the funding they receive from the Scottish Government.

Central government grants (including Council Tax Benefit subsidy) accounted for 62 per cent of Scottish local authorities' *revenue income* (see Appendix 1) in 2010–11, the other 38 per cent being own-source revenue income. The components of own-source revenue income and their shares of total income were as follows: 12 per cent came from fees and charges including rents, 11 per cent from non-domestic (i.e. business) property tax, 11 per cent from council tax (excluding Council Tax Benefit subsidy), the remaining 4 per cent being 'other income' including that from interest on cash balances. Their revenue funding from the Scottish Government is planned to be cut by 6.7 per cent in real terms between 2011–12 and 2014–15 (Scottish Government, 2011, Table 16.02, p. 230).

If councils were to seek to offset their losses of grants by increasing their rates of council tax and/or levels of charges (see pages 26–27 for examples) both these own-source revenues would have to be increased much more in percentage terms than the percentage loss of grant for which they would be trying to make up. This high level of gearing (see Appendix 1) makes it very difficult for Scottish councils to manage austerity other than by means of immediate reductions in their expenditures on employee and operating costs commensurate with the speed and scale of cuts in their grants.

The gearing ratio, and its corresponding financial constraint, is greatest for those authorities with relatively high expenditure need per head of population, relatively low taxable resources per capita and relatively high service costs (e.g. due to sparsity of population) because they receive proportionately higher levels of grants from the Scottish Government. Hence, councils with relatively high proportions of disadvantaged and vulnerable groups face the highest gearing ratios and so are much less able to mitigate the austerity-induced social risks faced by those groups than more affluent/low-need local governments.

In fact, Scottish councils' heavy dependence on grants from the Scottish Government has been exacerbated by the freezing of council tax over the last five years (see Appendix 1) and by the Scottish Government making key public services free to users, including some provided by councils (see Appendix 3). The council tax freeze also resulted in Scotland receiving less Council Tax Benefit subsidy from the UK Government than would otherwise have been the case (see Appendix 1). Hence, Scottish councils face even more restricted local finances than elsewhere in the UK.

Service charges are the only immediately available local source of additional finance. Notwithstanding the high rate of gearing between increases in total spending and the income they would have to raise, charges could be used together with vouchers based on both need for services and ability to pay for them so as to mitigate austerity-induced social risks (see Appendix 3). Their potential for risk mitigation is a key aspect of Best Value.

The universal nature of free services such as personal care of older people does little or nothing to mitigate the social risks of austerity and may even increase them by diverting scarce funds from services of particular benefit to vulnerable and disadvantaged groups. This is especially likely to be the case if making services free was not properly costed, as claimed by

Scottish councils. Besides leading to increased demand and so even more financial pressures on councils, the financial implications of abolition of charges in Scotland but not in England are not allowed for in the Scottish Government's block grant paid by the Westminster government because Scottish spending decisions are not funded via the Barnett formula (see Appendix 2). The result is that there is less financial flexibility for the Scottish public finances to be used to mitigate the social risks faced by disadvantaged and vulnerable groups as a result of the UK austerity measures.

The groups benefiting disproportionately from the Scottish Government freezing council tax and making services free were not vulnerable and disadvantaged groups because they already received Council Tax Benefit and their use of these free services is disproportionately low (i.e. universities) or they already received financial support (i.e. personal care). The picture for free bus travel is more mixed; people aged 60 and over qualify notwithstanding the fact that many are still in employment (and so can travel to work by bus for free) and by no means all pensioners are poor (e.g. those with occupational pensions).

Conceptualising social risk

Over the last decade or so, the term 'social risk' has been used to describe a new category of risks associated with the creation of further socioeconomic disadvantage, poverty and/or marginalisation of groups and individuals. This term was introduced and developed in a series of documents produced by the World Bank during the late 1990s and early 2000s as a part of their new policy approach for social protection focusing predominantly, but not exclusively, on developing countries. This innovative approach was designed to make development programmes more effective in alleviating the negative effects of the global financial crisis (from the late 1990s) and represents an attempt to develop an alternative social protection strategy based around risk management principles. It reflects an important shift in social protection policies towards the use of risk management in a social context, rather than in a business/organisational context as a tool for reducing economic vulnerability (McKinnon, 2004). In that way, the proactive management of social risks to ameliorate vulnerability and reduce exposure of populations to them by means of socioeconomic development programmes was a socially strategic response to the 'trade not aid' plea of developing countries intended to achieve both economic and social inclusion benefits.

This approach shifted the strategic focus of the World Bank from the previously endorsed coping strategies to more proactive, ex-ante planning strategies. By and large, the World Bank's reports make two important assumptions. First, that vulnerability is associated with income poverty, and second, that people living in poverty have more limited instruments to deal with all possible risk events (Holzman *et al.*, 2003). The ex-ante measures for fighting poverty and improving welfare will hopefully also lead to reduced costs of ex-post alleviation measures if and when individuals eventually have to rely on welfare support (Holzman and Jorgensen, 1999). More recently, it has been recognised that social disadvantage affects wider societal groups, not only those in poverty. A recent report by published by Demos identified seven criteria for disadvantage, namely low income, worklessness, lack of educational qualifications, overcrowding, ill-health, mental health problems and poor neighbourhood (Bazalgette *et al.*, 2012, p. 11).

More generally, a range of risk factors can affect households and individuals (Siegal and Alwang, 1999), such as:

- Production risk due to natural hazards and human decisions (e.g. industrial pollution events)
- Price risk due to market fluctuations (e.g. of food crops)
- Production and market risk related to resource availability (e.g. fuel)
- Health risk which, in turn, affects productivity (e.g. increased levels of heart disease/cancer)
- Policy- and institutions-related risk (e.g. opening domestic markets to global competition)
- Political risk, including political instability and/or conflict (e.g. a shift in political administration)
- Social risk associated with social ties and networks (e.g. those lacking social and economic resilience because of their diminishing capacity to deal with socioeconomic risks)

While the risks to individuals and households can be perceived as private or individual, the measures required to mitigate those risks tend to be social and public in nature.

Social risk management

Social risk management (SRM) has been defined as ‘... public measures intended to assist households manage risk and uncertainty in order to reduce vulnerability, improve income and consumption smoothing, and contribute to economic development (Siegal and Alwang, 1999, p. 2).

This definition of SRM obviously incorporates management (or mitigation) of the range of risks (mentioned above) that can affect individuals’ livelihoods, so making them less susceptible to welfare loss. Therefore a broad interpretation of social risk relates to any factor with the potential to lead to welfare loss, such risks being particularly acute for vulnerable and disadvantaged groups.

This complex nature of social risks is implicitly acknowledged by Holzman and Jorgensen (2000, p. 3) in their definition for SRM:

The main idea behind SRM is that all individuals, households and communities are vulnerable to multiple risks from different sources, whether they are natural (such as earthquakes, flooding and illness) or man-made (such as unemployment, environmental degradation and war). These shocks hit individuals, communities, and regions mostly in an unpredictable manner or cannot be prevented, and therefore, they cause and deepen poverty.

Draxler (2006) noted that the purpose of social protection is the public management of social risks. In his analysis, social risk is a category which includes demographic risks (reduced capability due to old age) or socially stratified risks (unemployment or low-paid employment). The author highlighted two main factors leading to the metamorphosis of individual risks into social risks. The first is the aggregation effect when large numbers of people are affected in a similar negative way and the resulting spatial spread of deprivation magnifies social disadvantage and vulnerability to adversity. The second is the more complex nature of the socioeconomic relationships, which weakens the personal ties and networks that could have been used for risk mitigation. This may occur, for example, as a result of increasingly unstable family and neighbourhood relationships simultaneously with increasing mental and physical ill-health that may be associated with

long-term unemployment and feelings of social exclusion, with interlinkages between these characteristics exacerbating the resulting social risks.

Young (1996) discussed the distinction between public sector and private sector risk management, emphasising some key characteristics of public sector risks which are typically associated with matters of public interest and high levels of uncertainty. Unlike private risks, public risks cannot be transferred to responsible parties with ability to bear those risks: the public sector must bear and proactively manage those risks. Young further divided **public** risks into **organisational** and **social** and noted that while public organisations have responsibility for social risks, the traditional approach to risk management 'skims the surface and fails to attack risk comprehensively' (1996, p. 14). This distinction between organisational and social risks is evident in the results of the five Scottish council case study research findings reported below, the emphasis of those five councils being on minimising risks to services as distinct from service users. However, a comprehensive public sector approach to social risk requires its mitigation through preventive measures.

Strategic and systemic social risks

Due to their complex origins and far-reaching impacts social risks are sources of *strategic risk* and also contain significant elements of systemic risks affecting a whole population (Hood and Miller, 2009). Following the 2007–09 banking crisis in major developed countries, the ensuing prolonged recession worsened public sector fiscal imbalances which were further exacerbated as a result of governments bailing out major domestic and global banks on the verge of bankruptcy. The required consolidation of the public finances is focusing disproportionately on cuts in public spending and this has led to social risks being recognised as an increasingly salient phenomenon that should be urgently and comprehensively addressed because of their potentially severe adverse impacts on the human rights and equalities agendas. These impacts may occur as a consequence not only of reduced access to services on which vulnerable and disadvantaged groups are disproportionately dependent but also because the public sector is a major employer. ONS data for the second quarter of 2012 reveals that 24.0 per cent of jobs in Scotland are in the public sector. It is also a major employer of women and other equalities groups and so job cuts will disproportionately affect them (ONS, 2012).

Hence, these agendas are a key aspect of public services austerity and are additional to the risks that organisations face in the private sector. However, the potentially enormous impacts of many of these strategic and systemic social risks will not become apparent immediately. For example, the adverse social impacts of higher unemployment are most strongly associated with long-term (especially youth) unemployment and include a 'social malaise' in depressed areas leading to a decrease in educational attainment, reduced health and wellbeing, increased alcohol and drug abuse, increased criminal activity and so on, in the longer term (Phua, 2011). A short-term focus on immediate cost-savings may therefore ultimately lead to higher costs if cuts exacerbate social inequality and social exclusion.

The very considerable *speed*, *scale* and *aggregation* of public service cuts being brought about by the UK Conservative–Liberal Democrat Coalition Government combine with the enduring stagnant economy displaying little or no growth to create considerable *social risks*. For example, as business failures and the number of jobless increase, alongside reforms to the social

security benefits system, the outcome will most likely be increased social risks such as poverty, homelessness and housing problems, higher rates of alcoholism and drug abuse, domestic violence and suicides (Phua, 2011). There also seems likely to be a simultaneous change in the patterns of health risk as the economic condition worsens. Certain disadvantaged groups are already high-risk groups in society and in worsening economic conditions the risks affecting them tend to multiply (Phua, 2011). There may be an increase in those requiring access to specific health and social services but access may decrease as services are reduced or withdrawn completely. It should also be recognised that an increased demand on public services will be further complicated from developments in technology, a shift in demographics, changes to working patterns, cultural change and higher levels of 'in work' poverty. The contextual environment within which local authorities make tough budget decisions is becoming increasingly challenging.

Social risk and public services

Evidently, Scotland's public services are in need of critical and sustained reform to meet unprecedented challenges arising from reduced budgets. New demographic and social pressures will entail a huge increase in the demand for public services and the economic downturn will intensify and prolong demand (McCormick and Harrop, 2011; Public Services Commission, 2011). Public service reform, i.e. service withdrawal, reduction, transfer and joined-up working to achieve improved cost reductions, has the potential to negatively affect the quality of service provision delivered by Scottish local authorities. The public service system is often fragmented and complex, hampering joint working between organisations. As a whole, the system is 'top down' and unresponsive to the needs of individuals and communities (Public Services Commission, 2011).

The Christie Report (Public Services Commission, 2011) suggests that addressing these systemic defects will require a fundamental overhaul of the relationships within and between those institutions and agencies – public, third and private sectors – responsible for designing and delivering public services. Unless Scottish local government embraces a radical, new, collaborative culture throughout their public services, both budgets and provision will buckle under the strain (Public Services Commission, 2011). Despite a series of Scottish Government initiatives and significant growth in public spending since devolution, on most key measures social and economic inequalities have remained unchanged or become more pronounced (Public Services Commission, 2011; Bazalgette *et al.*, 2012). These inequalities account for a significant element of the increasing demands on public service provision (Public Services Commission, 2011; Bazalgette *et al.*, 2012).

Particular concerns have been expressed regarding the impact that this will have on vulnerable and disadvantaged groups such as young people, people with disabilities and/or long-term illness, women, homeless people, older people, single parents and minority ethnic groups. Recent research (Hasting *et al.*, 2012) found that specific services have been targeted, and there is evidence of significant cuts across an extensive range of services used by all income groups: low, middle and high. However, there is also evidence that some services used more heavily by higher income groups are being significantly reduced. Nevertheless, the impact of service reductions will fall more heavily on disadvantaged people because of their greater reliance on the broad range of public services, compared with more affluent households who have the capacity to supplement public with other forms

of service provision. The report (Hasting *et al.*, 2012) demonstrated that only half of the sample of English local authorities had adopted 'protecting the needs of the most vulnerable clients or communities' as a principle guiding budgetary decision-making and only two of the 25 suggested that 'protecting deprived neighbourhoods' was a key priority.

If similarities exist in the approach of Scottish local authorities to public service reform, there is a risk that public service reform will deepen and widen existing inequalities if vulnerable and disadvantaged groups are not specifically considered in resource allocation (Scotsman, 2011). Recent research (Demos, 2010; Fawcett Society, 2011; McCormick and Harrop, 2011) detects early signs of women, children, young people and people with disabilities being disproportionately affected by the austerity measures. For example, almost a third (30%) of Women's Aid groups reported having to make changes to the services they provide as a result of reduced funding. Such changes focused on stretching reduced resources to cover existing services and have resulted in service reduction, for example in contact support hours for women, the introduction of waiting lists for referrals and a reduction in advocacy support (Scottish Women's Aid, 2012).

A recent report by the TUC found that support services more susceptible to cuts or change are used mainly by women. These include home-based care, older people's care and respite care, childcare, debt advice, fuel poverty and housing (TUC, 2011). Cuts in these sectors will adversely affect women's employment especially if part-time and temporary posts are cut in preference to full-time permanent posts (EBAG, 2010). Disabled people are reliant on a whole range of different local authority and third sector provided services and support systems to enable them to maintain a decent quality of life, employment and friendship networks, and to living independently (Demos, 2010). Cuts to social care services, for example (community and personal care), as the largest single service that disabled people are likely to use to enable them to live independently will have an impact on quality of life (Demos, 2010). Despite the UK Government report (Morrell *et al.*, 2011) linking closures of youth clubs to the UK riots, these services are not protected from the cuts, neither are budgets ring-fenced. Since the introduction of the austerity measures in 2010, significant cuts have been made across youth services in England (*Guardian*, 2011). According to Hasting *et al.*, (2012) a broad range of children's services appeared to have been badly hit across a number of authorities. Indeed, children and young people emerge as the group most severely affected.

An efficiency drive has reduced staff numbers significantly in the public sector and as such is a key source of unemployment in Scotland. For example, in the UK more than 30,000 NHS workers and 71,000 in education were among more than a quarter of a million public sector staff who lost their jobs in 2011 (*Guardian*, 2012). Unemployment among young people increased faster than other age groups during the recession (BBC, 2012). Young people fare worse in the labour market, with the unemployment rate for 16–24 year olds three times that of their adult peers (McCormick and Harrop, 2011). The expenditure needed to continue protective initiatives, largely in staff time, will be in competition with other demands in times of austerity (McCormick and Harrop, 2011). It is becoming increasingly important to sustain the 'protective factors' often delivered by local authorities, such as financial capability training, skills training, confidence raising, and widening access to opportunity to support young people in the current economic climate. A disproportionate impact of a reduction in protective initiatives will undoubtedly increase inequality across societal groups at risk. Due consideration must be given to such groups in decision-

making and social risk-mitigation procedures by Scottish local authorities in resource allocation.

Social risks and local public finance in Scotland

These emerging social and organisational risks create new challenges and shape a new risk landscape which requires an innovative public sector management 'predict-and-mitigate' model operating within risk-aware 'anticipatory governance' of services (WEF, 2012). This will enable national, regional and local governments to avoid unnecessarily high long-term costs and exacerbation of social issues and also to ensure that best practice and opportunities for innovation are recognised and exploited.

Bearing this background in mind, the research detailed in this report identifies current practice in Scottish local government case studies in their approaches to implementing austerity measures and considers the extent to which they recognise and seek to mitigate the resulting social risks.

Approaches of other public sector bodies

It is not just councils who have to deal with austerity. Other public sector organisations such as the police and fire and rescue services, the NHS, and Scottish universities and colleges are engaging in similar processes to achieve cost savings through internal reorganisations of structures and service reconfiguration in the form of *service transfer*, *service reduction*, *service withdrawal* and *joined-up services*. Concerns have been raised in England that the NHS will have to make cuts to its frontline services in order to achieve efficiency savings in 2013 despite having its budgets protected by the UK Government (King's Fund, 2011). This is because ageing demographics and other changes (e.g. rising obesity levels) are putting considerable pressure on largely static (albeit protected) NHS budgets (Kings Fund, 2011). Proposals to abolish Scotland's eight existing police forces and to create a national force overseen by the Scottish Police Authority and responsible to Scottish ministers demonstrate a significant way of how joined-up service might achieve cost-savings (Scotsman, 2012). Similarly, as part of the Scottish Government's rationalisation of further education, three colleges in Scotland have merged into one to share back-office services and overheads (e.g. buildings) and so be more efficient. Scottish universities already have a considerable role (albeit variable between institutions) in supporting disadvantaged communities by providing educational, cultural, social and recreational opportunities and facilities (Robinson, 2012). However, Scottish universities are also facing cuts to budgets comparable to those faced by councils, especially as Scottish students do not pay tuition fees.

Service reduction relates more to the streamlining of university degrees than to reduced student places. Cost savings can be achieved by reducing students' choice among a variety of overlapping degree programmes (especially business degrees in marketing, management, economics and so on). Service reduction in the NHS includes decisions by health authorities to no longer provide some types of cosmetic surgery, notwithstanding the 'adverse implications for mental health' justification of some operations.

Service withdrawal includes decisions by NICE (the National Institute for Health and Clinical Excellence) that some pharmaceuticals and medical treatments do not satisfy benefit-cost requirements and so should not be prescribed or provided. Recent examples include prescribing very expensive

treatments that prolong life for only very short periods of time, that money being judged to be better spent on other treatments.

Joined-up services have already been developed prior to the austerity era between health authorities and local governments, for example in social and nursing care establishments, in the multi-specialist teams determining need for care and personal budgets for older people and now in public health. Such developments can be expected to increase in the health and social care sectors. However, rather than the rationale for such joined-up provision being savings in operational costs, the main justification is to improve substantially the outcome effectiveness of services. Nonetheless, such positive outcomes have considerable potential to reduce service needs (and hence costs) in the longer term. Joined-up services in the university sector would seem to be much more focused on cost savings (e.g. in library resources) than targeting improved outcomes.

Our research found no evidence of service transfer in the five local governments. Moreover, there seems to be little if any evidence of service transfer in the wider public sector except when instigated by central government, for example giving local government responsibility for promoting public health.

What lessons for Scottish local authorities can be drawn from the experiences in other parts of the public sector in managing austerity? First, like the Scottish universities and NHS, after making the immediate stage 1 cost savings from 'reduction, redeployment and reshaping' seen as necessary to balance their budgets councils should pay much more attention to moving well into stage 2, *the reconfiguration of services that is not so heavily focused on cuts in discretionary services*. Cutting discretionary services may seem the easiest option (or, at least, the only one consistent with protecting statutory services) but that may be at the expense of greater service needs in the future, *including needs for statutory services*. Both discretionary and statutory services need to be reconfigured, instead of simply cutting the former immediately to protect the latter (at least for a while).

2 AIMS AND OBJECTIVES OF RESEARCH

This aim of this research is to explore Scottish local authorities' use of decision-making criteria, frameworks and priority-setting processes, if any, to determine whether they take sufficient account of the risks faced by the most disadvantaged groups in the reconfiguration of public services. The overall aim will be achieved by addressing the following specific objectives:

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- Identify and measure the potential and actual impact of budget cuts on disadvantaged communities.
 - Draw instructive comparisons with the approaches of other public and para-public sector bodies (such as NHS Scotland and Scottish universities) to service redesign and reduction.
 - Identify criteria, frameworks and priority-setting processes that are, or could be, used when deciding cuts and reconfiguration.
 - Determine whether risk implications for disadvantaged groups are sufficiently recognised by policy-makers in order for risk-mitigation measures to be adopted.
 - Assess if and how the totality of public services needs of high-risk groups are addressed and whether community stakeholders are sufficiently involved and empowered, identifying good practice in reconfiguring the totality of public services for those groups.
 - Identify existing and innovative financing methods for capital projects and service delivery for disadvantaged groups that can be used to mitigate social risk.
 - Identify best practice for management and minimisation of current and future risks faced by disadvantaged groups in conditions of continuing resource scarcity and draw relevant recommendations for decision-making policy and practice.

3 RESEARCH METHODS

Research methodology

Five Scottish local authorities took part in this case-study based research. Their anonymity being assured, suffice to say that they are local authorities with disadvantaged groups already recognised for regional and urban policy purposes. Of the five case studies, four have been selected from the central belt of Scotland and one is located in a rural island area. Their political control, urban–rural balance, and mix of deprivation and affluence vary. There are several features of rural Scotland which suggest that the impact of the cuts on disadvantaged and vulnerable groups may be greater than in urban Scotland, including the higher prices for household commodities including fuel and food; the high cost of private housing relative to earnings in rural areas and the very limited supply of affordable housing; the higher costs of service provision; and the smaller size of the private sector (and its limited ability to ‘soak-up’ jobs lost in the public sector) (SAC, 2011). This differential context is considered in this research.

This research adopts a triangulation approach utilising an inductive, exploratory method based on documentary analysis (case study stages 1 and 2) and semi-structured in-depth interviews with local authority managers (case study stage 3). Case study interviews and other fieldwork were conducted between August 2011 and November 2012.

Case study stage 1: Secondary data was collated from the local authorities’ websites in the form of a variety of eGovernment publications; for example, Equality Impact Assessments (EIAs), press releases, policy documents and minutes of committee meetings (education, social care, corporate, audit and finance) which provided a contextual understanding of the policy environment within which local authorities consider vulnerable and disadvantaged groups. The intent of the initial documentary analysis was to explore the decision-making criteria referred to, if at all, in resource allocation and any initial proposals for the reconfiguration of services.

Case study stage 2: Further analysis was conducted of key documents obtained from the local authority during interviews; for example, Joint Community Care Plans 2009–2011, Joint Health Improvement Plans, examples of EIAs and (where available) reports monitoring the impact of the 2009 recession. These documents helped us understand better the processes being utilised. Both stages 1 and 2 informed the development of interview questions for stage 3.

Case study stage 3: Table 1 outlines interviewees and for the purpose of anonymity the specific titles of interviewees are not listed instead, interviewees have been grouped by service areas.

Table 1 – List of interviewees

Levels of service	Numbers interviewed across the five case study local authorities
Heads of social work	4
Heads of education	5
Heads of finance	4
Equality, poverty, policy and performance managers	7
Elected members	6
Youth or older people services managers	4
Heads of housing regeneration	3
	TOTAL = 33

The use of triangulation of research methods ensured the validity and reliability of the findings as empirical research is supported by multiple sources of evidence. This also facilitates a systematic and comprehensive analysis of key issues

Challenges and limitations of research

From initial contacts with case study local authorities, it became clear that the issues relating to service cuts can be a contentious area of discussion. For this reason case study authorities and individual respondents remain anonymous.

The key issues identified from pilot interviews were related to:

- the stage at which local authorities are at in terms of their decision-making processes;
- the terminology used, in particular with reference to the welfare reform; and
- the precise wording of some questions.

All case study local authorities appeared to be at relatively early stages of modifying their decision-making processes for service reconfiguration. We unified with our respondents the terminology used in relation to the welfare reform. Given the nomenclature of categories describing vulnerable and disadvantaged groups, a decision was taken by the research team to allow the local authority to categorise what they considered to be their vulnerable and disadvantaged groups.

4 RESEARCH FINDINGS AND DISCUSSION

Assessing and addressing the impact of the spending cuts

At this stage it is not possible to assess precisely the actual impact of the budget cuts on disadvantaged communities in Scotland. Given the early stages of service reconfiguration evidence is mainly anecdotal and the impact will not become entirely clear for a number of years as cuts take hold. Nevertheless, we have found evidence that *local authorities may exacerbate current inequalities across disadvantaged communities in their actions to reconfigure public services as a result of reduced budgets for service provision.* Our analysis focuses on establishing existing awareness of the cuts, on planning the initial decision-making frameworks and on mitigation measures.

Categorisation and prioritisation of vulnerable and disadvantaged groups

All interviewees found it difficult to categorise vulnerable groups as at one stage or another all individuals will experience some form of disadvantage. It was suggested that there is:

“...no doubt that any cuts will impact upon vulnerable groups but what we have been trying to do over the past few years is lessen the impact.”

(Director of Social Work, local authority C)

This demonstrates the complexity and significance of the predicament that case study local authorities are faced with. Yet, older people, children, young people, disabled people, minority ethnic groups and women were identified as being particularly vulnerable to budget cuts and job losses:

“Yes, it is complex to prioritise; if you were to say which groups are to be more affected by the economic climate then young people who are aspiring to go into work, including vulnerable school leavers, are at risk. In addition, younger children in vulnerable families, who may already face a range of pressures, will experience further difficulties at a time of economic hardship. Whatever the challenges it might be they become a top priority so depending on the information available to the council, there will be moments when these groups will be affected. It

requires a continuous review and evaluation to identify how they will be affected.”

(Director of Education, local authority A)

For example, in local authority B those expected to experience the most adverse impact from cuts to services are young people and families, single parents and homeless people. Traditionally older people and those with disabilities tend to be most protected by the local authority through legislation and it was suggested that those of working age could be expected to be the most vulnerable. Homelessness was identified as a key concern for housing and regeneration service departments. The Performance and Planning Manager in local authority A also noted that:

“With employment opportunities we are trying to encourage those with disabilities to develop skills and potential employment opportunities, but there are less opportunities due to the austerity measures in general and the economic climate.”

Evidently, the longer-term impact of the cuts may be a less skilful workforce with a consequent lack of opportunity. Similarly, the Fieldwork Manager in local authority A noted that there were issues surrounding older people’s care and increasing incidents of dementia, illustrating the impact this has on families as informal carers:

“In terms of our future risks and older people, older people are living longer but also there has been an increase in dementia across older people too. The majority of people going into care are 85+ so this indicates that we are sustaining people in the community longer. I have to say we may be sustaining them but so are families; families are coming to us under lots of pressure and looking for assistance.”

(Fieldwork Manager, local authority A)

Specifically, according to the Policy and Equality Officer C, cutting public spending has had a particularly negative impact on *gender equality*. Officers have identified that their budget proposals will have a disproportionate impact on women in terms of job losses, especially clerical, catering, cleaning, and childcare job categories and that reduced childcare provision will adversely affect both children and women. Service reconfiguration is also anticipated to have an adverse impact on racial equality issues due to the complete or partial withdrawal of services aimed at minority ethnic groups. *Cuts to services will not only affect those identified as most at risk but also those on the margins of poverty. Nonetheless, we found that there is no direct link between the identification and prioritisation of vulnerable and disadvantaged groups and policy formulation in the case study local authorities.*

Lack of data

In seeking to protect vulnerable and disadvantaged groups from spending cuts, there are difficult challenges in measuring the actual and potential impact of accumulative spending cuts on disadvantaged communities. The following data issues were identified:

- There is a lack of data on vulnerable and disadvantaged groups. Data that does exist can be limited in application and too out of date to be able to measure accurately the impact of the cuts.

- Simplistic data collection systems fail to capture the precise data required to enable accurate analysis of current and future projected trends.
- There are inconsistencies in data collection and recording of data across departments (i.e. the health and social care department may record information differently to and in ways incompatible with the housing department).
- There are challenges in measuring the outcomes of preventive initiatives as an evidence base to justify further investment during decision-making and mitigating risks to the most vulnerable groups. This is because the counterfactual (i.e. what would have happened without those measures) is largely unquantifiable.

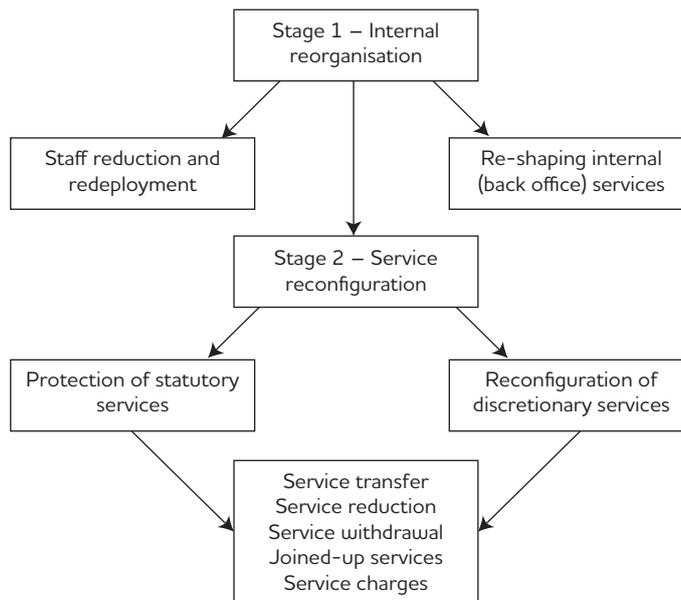
It was suggested that this can often present a difficulty in creating a case to a Council Executive for further investment in early intervention and preventive measures during the decision-making process. One interviewee (Youth Service Team Manager, local authority C) commented, "How can you measure what has been prevented?" and there lies the difficulty in measuring potential outcomes. Furthermore, much of the existing data is backward looking, some as far back as the census population in 2001. This data was subsequently updated only in part by the Department of Work and Pensions, councils and other organisations and is still not fit for purpose in terms of social risk mitigation. This can make the decision-making process used as part of the EIA too limited.

While the Scotland's 2011 Census will provide a rich source of data for case study local authorities on vulnerable and disadvantaged communities thereby enabling some analysis of any socioeconomic distinctions across protected characteristics, results will not be available until late 2012 or 2013. By this time many decisions based on outdated information will have already been taken by local authorities. Moreover, despite the availability of national and regional statistics, the data is often described as too aggregated and not sufficiently detailed at a local level. As noted above, data also tends to be unreliable and/or incompatible between different sources and departments. Often policy teams are reliant on partial information to make policy decisions and conduct EIAs, this deficiency having been cited by all five local authorities as an obstacle to informed decision-making:

"We have found that within housing they have two or three different returns which need data, so they have different systems even within one resource and it is very difficult to overcome that. We [social work] weren't able to tell how many wheelchair users we have and vice versa [housing]. The data is not collated well. We have wheelchair users which may not need adaptations but we have no way of linking that data. That goes back to requirements of data collection."
(Performance Manager Social Work, local authority A)

While other data sources may exist with up-to-date information, for example as part of the provision of Housing Benefit, with the Jobcentre Plus or with Citizens Advice Bureaus, case study local authorities did not specifically refer to the use of such to inform decision-making. *To measure the actual impact of the UK spending cuts on vulnerable and disadvantaged communities, local authorities need to develop more sophisticated systems to capture and evaluate data and be capable of systematic analysis to inform future decision-making.* More robust and relevant data needs to be gathered relating to longer-term social risks arising from austerity. Attention should be paid to improving the quality of existing data and improving access to and use of it to monitor

Figure 1: Stages of service reconfiguration



developments in social risk and its mitigation. While local authorities referred to the need to monitor the impact of the cuts there were no specific examples of how this was being carried out.

Service reconfiguration

All five local authorities engaged in efficiency savings programmes through internal reorganisation to protect frontline services in the first instance. In service reconfiguration there is evidence of service transfer, service reduction, service withdrawal and increased service charges, all of which have the potential to impact adversely on disadvantaged and vulnerable groups. Figure 1 illustrates service reconfiguration.

Efficiency savings

The first stage of efficiency savings by each of the five case study authorities was an internal reorganisation of departmental structures which has resulted in a rationalisation of staffing and working environments. Changes include a reduction in heads of service, managerial staff and further staffing reductions in relation to reshaping frontline services. This was achieved via flexible working conditions including redeployment, hot-desking, smart-working, rationalisation of assets and moving from leased accommodation into council-owned accommodation. Additionally, local authority B engaged in organisational efficiency savings through the development of shared back office functions. Notwithstanding attempts to protect frontline services, reduced staffing has had a negative impact on delivery of both statutory and discretionary services, and governance arrangements were identified as a key problem due to service departments working in isolation from other service departments, this so-called ‘silo mentality’ pervading across the organisations. Furthermore, public service cuts contribute to unemployment in Scotland.

As part of the internal reorganisation staffing has been reduced disproportionately in some local authority departments and functions. For example, in local authority C the youth services department has experienced the biggest proportionate cuts and in local authority D approximately 25 per cent of all job losses will be from the social work department. Furthermore, local authority C has reduced educational support posts, such as school

support co-ordinators, peripatetic nursery teachers, and removed 16+ development posts. This contradicts the priorities and policies of the Scottish Government to reduce inequality in health and wellbeing among children and young people and does little to protect these vulnerable communities (Public Services Commission, 2011). One interviewee (Youth Services Team Leader, authority C) summarised the confusion and frustration that staff reductions have caused:

“There was a period of uncertainty when each week someone was given early retirement or a voluntary redundancy package. Although there were no compulsory redundancies [in the Council], you [staff] were finding that people were disappearing and [staff were] thinking ‘Well, who is responsible for that?’ [and the response was] ‘We [the council/department] aren’t doing that anymore,’ or ‘So-and-so is responsible,’ or ‘There is no one in that post anymore.’ So we [staff] are constantly going through that!”
(Youth Services Worker, local authority C)

Following an internal reorganisation the second stage is the reconfiguration of service provision including *service transfer, service reduction, service withdrawal and increased service charges* (see Figure 1). Focusing on the education, social work, housing and regeneration departments, we found that so far the five authorities have not completely withdrawn any core services, opting for joined-up working and service reconfiguration. *The councils appear to have resorted to protecting their statutory requirements as funding for discretionary services has shrunk and tough decisions have to be made.* In embarking on service reconfiguration all five local authorities considered which services are statutory and those which are discretionary (i.e. having no legal requirement to provide). These authorities are increasingly moving towards protecting statutory services based on considerations such as ‘What do the council does NOT need to do’ (Director of Social Work, local authority C).

Service withdrawal

None of the five case study councils has completely withdrawn any core public services. This is because, as noted above, decisions to withdraw services have the potential to negatively affect longer-term health and wellbeing and educational priorities. There have been school closures in local authorities C and E but this was as part of school rationalisation programme due to falling school rolls. Examples of discretionary service withdrawals include: knitting instructors, grass cutting services, swimming lessons for school children, mobile libraries, foreign language assistants, community wardens, English as an additional language teams, free bottled water for primary school children and some learning locality budgets introduced to promote social, economic and environmental wellbeing.

Service reduction

Service delivery has been reduced (rather than withdrawn completely) for some statutory services, the choice between reduction and withdrawal varying from one council to another. For example, as noted above, one council withdrew completely all provision for foreign language assistants whereas the other local council only reduced the number of foreign language assistants and therefore still provide that service unlike the other council. At the other end of the age spectrum, in social care there has been a rationalisation of homecare; needs are assessed around basic requirements such as provision

of a bed, medication and help getting washed and dressed. Prior to the austerity measures the focus was on the quality and experience of homecare. However, reduced staffing has led to reduced contact time with individuals in their home.

Much the same can be said for discretionary services. There has been a reduction in grass-cutting in one local authority, which has limited the service provided for older people living in houses with gardens. Reduced budgets for parental involvement projects, community safety, support for violence against women, multi-agency partnerships and CCTV schemes will undoubtedly have a disproportionate impact on the most vulnerable communities. Community safety officers have been reduced in local authority C as has mediation services for anti-social behaviour. It is expected that local authority C will outsource as required for these services.

Service transfer

Two examples of service transfer were provided whereby delivery of a community care lunchtime club and housing support service have been transferred to the voluntary sector. Another authority considered (but had not yet implemented) transfer of community facilities to volunteers. In each case local authorities found it more cost-effective to transfer the delivery of services rather than to deliver services in-house. In the cases of housing support services the voluntary sector was already involved in similar services. At this stage respondents reported a very limited use of service transfer. One reason for this is that local authorities are going through a process of rationalisation of their voluntary and charity sectors, scrutinising the services that they deliver to identify any duplications.

There was no evidence from this research of service transfer to the private sector to achieve cost-savings in service delivery. Given the current economic climate local authorities were reluctant to use this option in service reconfiguration at this stage due to the political controversy surrounding the outsourcing of services to the private sector. There was a general feeling that members of the public are often opposed to the use of the private sector in public service delivery. Existing tendering of services to deliver social care services did raise some key concerns. The current economic climate increases the risk that private sector providers of elderly care homes go into administration, leaving local authorities as the risk bearer of last resort. One local authority had already experienced challenges in this area, and it was evident that this was a key risk. Given the statutory requirements to deliver social care services local authorities would need to find alternative ways to provide these services.

Joined-up working

Case study local authorities are engaging in joined-up working in two ways. First, different council departments are working better together to deliver services, and, second, local authorities are joining with other public services organisations to protect frontline services from cuts. Local authority departments work together and they consider the totality of public service needs and the cumulative impact of cuts across departments. Local authority C had begun discussions for more joined-up service delivery with neighbouring local authorities in a bid to improve service efficiencies. Local authority A has merged two Women's Aid organisations into one and promotes joined-up working across the health, social care and youth services.

Projections of an increasingly ageing population in all five local authorities is expected to increase demands on health and social care services and

require joined-up working across organisations. Recurring clinical episodes and repeat hospital admissions require a supportive response by a local authority to prevent admissions and so reduce future demand on services. *Some local authorities are engaging in a joined-up approach with health teams to mitigate this risk.*

There is also evidence of joined-up working between health and social care in particular:

“Most individuals involved in the health and social care sectors welcome the move towards joined-up services as a number of areas of service delivery cross over. Given that the health authority works across the both areas, although there may not be a direct link to a hospital or service, a knock-on effect has the tendency to exist within the network of services (i.e. if there is no bed in one hospital then that person may be moved to another, taking the place of other individuals). Key is transparency and honesty in delivering joined-up services. In the local authority area there have been proposals to close wards in hospitals and this is a politically sensitive issue.”
(Director of Social Work, local authority D)

Further suggestions around joined-up working extend to other public sector organisations:

“Maybe one more point to note is about how we work in Scotland’s councils through the Scotland’s children agenda and the community planning agenda. There is a need for us to be interacting with our major public sector partners – so health, police, social work on the area of [what] may be social priorities and, without doubt, that helps mitigate the dangers for specific services.”
(Finance Director, local authority A)

Case study local authorities intend to make better use of existing partnerships, including Community Planning Partnerships, which incorporate a number of organisations such as community groups, the NHS, and the police and fire and rescue services into a working group across all service areas. It has long been recognised that such joined-up service initiatives are justified more in terms of providing a holistic approach to service needs than in terms of achieving cost savings. In these terms, the austerity measures have provided the stimulus for changes that should have been made much sooner in order to coordinate administratively disparate public services so as to bring about potential improvements in outcomes.

Increased service charges

Further ‘savings’ have been achieved through initiatives to generate increased income from council tax collection (i.e. chasing arrears), planning fees (i.e. levying the full range and levels of fees set nationally), contractual arrangements (for sharing revenues and costs), increased rental income (not only increasing levels of rents but also reducing voids), reduced utilities costs (i.e. via energy-saving measures), maintenance costs (i.e. more efficient programming) and sales of assets in the form of buildings and machinery. Efficiency savings also include increased scrutiny of the services delivered by voluntary organisations and (as noted above) a transfer of services to the voluntary sector in one of the local authorities. The purpose is to lessen the impact on frontline services, but all interviewees acknowledged that councils have to do more with less:

“Fees for sporting facilities are set to increase and reflect a more competitive rate like the private sector. However, they will be means tested to protect the most vulnerable. The council is under-pricing themselves in the delivery of service provision. For example, our [the council’s] swimming programme was very cheap in comparison to other local authorities and there was a huge waiting list so we re-programmed the pools, got another swim coach and increased the charging to commercial rates rather than by inflation as usual.”
(Area Manager, local authority D)

In particular, local authority D has created a dedicated post with the remit of generating income and finding new ways of working to increase revenues. Other ways to increase revenue include charging other services for their use of council staff, for example teaching and sports tutors (referred to as ‘internal recharges’). As qualified staff they will be provided to other agencies at a price which reflects commercial activity representing a more entrepreneurial and innovative approach to raising revenue.

In protecting services such as leisure, increased charging to older and disabled people will affect vulnerable groups. Other examples of increased charging include ‘blue badge’ parking schemes, school buses for children, music tuition in schools, daycare services for adults with learning difficulties and increased charging for school meals above inflation. Although services remain mean tested, low-income households not eligible for financial support may struggle to afford services. This will have a negative impact on those on the margins of poverty who will also be affected by the forthcoming welfare reforms.

Identification of criteria, frameworks and priority-setting processes

The EIA framework

In the identification of criteria, frameworks and priority-setting processes, the Equality Impact Assessment (EIA, or EQIA as it is sometimes referred to) is the main framework used by the case study local authorities. Developed prior to the austerity measures, the purpose of the EIA is to demonstrate that in decisions taken during service reconfiguration ‘due regard’ has been paid to equalities issues and specifically to those groups covered by protected characteristics detailed in the Equality Act 2010.¹

Carrying out an EIA involves systematically assessing how a policy change (in terms of activities, functions, strategies, programmes, services or processes) may impact, either positively or negatively, on equalities groups. EIAs were conducted for nearly all proposals for both statutory and discretionary services, the exceptions being in the leisure and arts services in local authorities B and D. It was evident in those two local authorities that EIAs were relatively new and not all proposals had had an EIA conducted as they were not deemed significant at that stage.

Do EIAs protect disadvantaged and vulnerable groups?

By completing the EIA process, local authorities are able to demonstrate that they have given due regard to, and have considered the impact on equality for, those who fall within the protected characteristics criteria. The key focus is on compliance and protecting the local authority against any adverse impact from decisions made, and EIAs provide evidence that due consideration has been given to the equality implications of budgetary decisions. Nevertheless,

the EIA faces key limitations in terms of meeting the needs of the most vulnerable.

First, although required to consider the impact of proposals that may affect one group more than another, an EIA does not actually prevent local authorities making decisions contrary to promotion of greater equality. They are accountable for any such decisions through local democratic processes and, provided that decisions observe the law in respect of human rights, they have the freedom to seek to implement the political manifestos on which they were voted into power.

Second, even if councils fully observe EIA requirements and seek to protect equalities groups, other groups fail to be considered. This is because the criteria embedded in the EIA are limited to *specific* equalities groups, thereby failing to consider the wider implications of the austerity measures and the social risks they create for other groups at risk of increased inequality, for example low-income households that do not display equalities criteria.

Third, by completing the EIA process, local authorities demonstrate that they have considered and identified the impact on equalities groups but they are not required to state whether (and, if so, how) they will mitigate any risks identified for a particular group. The key incentive for councils to undertake EIAs is compliance with the equalities legislation by ensuring that there is recorded evidence of that process having taken place: it is not for the purposes of risk mitigation.

Fourth, even if the EIA is used specifically for risk mitigation purposes, the fact is that it is singularly inappropriate as a risk mitigation tool. This is because it was not developed for this purpose and so is severely limited in its use to consider the wider impacts of austerity measures on all socioeconomic groups.

Despite these severe limitations being inherent to the EIA process, it seems that there has been increased take-up by the case study councils in its use as the prime risk mitigation tool used in responding to the austerity measures. Unfortunately, those inherent deficiencies are exacerbated by the use of inappropriate data.

Issues with data used to inform decision-making

To undertake the EIA process, elected members are provided with various sets of information for each proposal, including risk assessments and organisational/employee assessments. However, much of that data is inappropriate for the purposes for which it is being used. Much of the information currently available comes from qualitative research or focused studies rather than national data sets. The gaps in data and information relating to several equalities strands makes it difficult to source official statistics or data to assist in compiling evidence of need for particular services. The Policy and Performance Manager, local authority A, explained:

“Each service department has different systems and different ways of storing data; for example, social work will have different systems to housing. So trying to assess cumulative impact is very difficult. I think that’s what the austerity measures are throwing up: challenges that we didn’t know about – or ever needed to consider before the austerity measures – to the same extent. There will be a small core group that will receive services from all of us [different services].”

The Planning and Performance Manager went on to explain specifically the challenges of different data storage systems:

“This is a huge barrier in decision-making which came out in a conversation with housing and our department [social work]. We found that within housing they have two or three different [information] returns which require data. They have different systems even within one resource and it is very difficult to overcome that. So makes it difficult to do the matching up in the totality of public services due to incompatible data collection. We [social work department] weren’t able to tell how many wheelchair users that we have and vice versa. The data is not collated well. We have wheelchair users which may not need adaptations but we have no way of linking that data. That goes back to the requirements of data collection at a national level.”

Thus, other sources of data or evidence are often used as proxies and so decision-making can be flawed and not truly reflect need. More widespread availability of official data would greatly help the councils to engage in evidence-based decision-making. Meanwhile, the lack of reliable, authoritative and comprehensive data and research is a considerable problem for those councils seeking to mitigate social risks arising from austerity measures.

Policy innovation in risk mitigation criteria

In the five case study authorities there is no evidence of development of completely new risk mitigation processes and criteria specifically in response to the austerity measures. However, there is evidence of augmentation of existing EIA processes and criteria to be more tailored to meet the needs of service users in local authorities A, D and E.

“We [local authority A] are evolving the EIA process and extending it beyond the remit which is required by the council. The department uses the EIA generic document supplied by the council as a starting point. The Health Scotland EIA was preferred as it is much broader than just equality groups, it gets you to think more laterally. It goes beyond just equalities groups and looks at lifestyles, health and wellbeing, social impacts, physical environment and quality of services. It is a holistic approach and goes beyond the idea that social work ‘just’ provides types of services for individuals but considers the impact on groups of people as users of different services not just one individual using one service. Furthermore, the Health Scotland EIA allows human rights issues to be explored as part of the assessment.”

(Performance and Practice Manager Social Work, local authority A)

To complement the EIA process, local authority E *is in the process of developing a Poverty Impact Assessment (PIA) and any change in the budget is subjected to such a PIA.* The rationale for the development of the PIA was the failing of the EIA to address social issues not captured by the EIA, for example issues with increased unemployment leading to higher levels of poverty. It was suggested by a senior practitioner in local authority E that equalities groups tend to experience poverty but the message has been lost between equality, poverty and disadvantage. It is intended that the PIA will bridge this gap. The focus of the PIA is poverty-proofing service proposals to protect those most at risk from service reform and interviewees found it very effective in starting the dialogue around these issues.

Nonetheless, *there was no evidence of the development of ‘bespoke’ decision-making models or risk mitigation criteria to specifically address austerity*

measures. The five local authorities have not adopted any further decision-making criteria; for example, equality budget analysis, participatory budgeting and poverty sensitive budget analysis for the purpose of the austerity measures. Only local authorities A and B had engaged in participatory budgeting but not specifically for use as a risk mitigation model. Decision-making with regards to equalities issues is restricted to the EIA and relevant service legislation with evidence of augmentation.

Role of the single outcome agreement in priority setting

Developed prior to the austerity measures taking hold, it was suggested that the Single Outcome Agreement (SOA), does not reflect the changing priorities resulting from the austerity measures nor does it explicitly refer to risk. By default, it adopts a 'risk neutral' stance.

The SOA is a binding agreement between local and national government that defines the overarching priorities and principles in the budget-setting process for each case study local authority. Decision-making at a departmental level reflects such priorities. However, it was suggested that the SOA, settled in 2007, is out-of-step with the current economic climate and is failing to reflect changing priorities. The Head of Social Work in local authority D criticised the SOA as it has not provided councils with the flexibility intended when removing ring-fenced funding to give them the freedom to spend those funds in accordance with their own priorities:

“In a sense, when we started out with the SOA it was a big step forward for local government. I would expect that after the May 2012 election there will be discussion surrounding the SOA and whether it should return to the agenda. I think at the beginning the SOAs were great but in the last few years it [the SOAs] has not really worked out as was hoped in our council [D]. They were important at a point in time, they could be important again, but to do so it would require a genuine application of the SOA policy to everything that you are doing over a number of years. Also they were designed before the crash – so are they reflective of the current economic situation as guiding principles? I don't think so.”

(Executive Director of Social Work, local authority D)

As an overarching framework to guide prioritisation in the decision-making process the SOA may therefore be ineffective in the current climate.

Political agenda

It was suggested that each of the local authorities' guiding principles, to an extent, reflect a political agenda in meeting the needs of the electorate in terms of political and reputational risk. The key priority is to protect frontline services but 'popular votes' and 'likeability' factors may take precedence. One council (C) retracted a proposal for increased charging for daycare services due to unpopularity among the electorate and gave it further consideration. Other examples from case study local authorities include 'emotive' proposals such as charging pupils for using school buses, which became quite political and so the decision was reversed. Reversing decisions due to political risk is costly as funds will need to be redirected from elsewhere. It was evident that a strong political imperative exists in the decision-making processes, and decisions can be rescinded as a result of increasing unpopularity among the electorate.

In mitigating political and reputational risk, decisions may be taken which are not necessarily reflective of the most vulnerable and disadvantaged

socioeconomic groups within a local authority's electorate. There was evidence of competing priorities influenced by political agenda in case study local authorities dependent on demographics. According to an elected member:

“So when you are making budget decisions you [the Council] can't always put everything into the poorer areas because the majority of people are not in those areas so you have to make sure that there is a balanced approach to resource allocation. It is important to make sure that everyone gets some form of service; it's a balancing act over time.”

(Elected Council Member, local authority C)

In local authorities A and D where a high percentage of the electorate live in areas with high levels of deprivation and multiculturalism, council priorities tend to reflect the most vulnerable in terms of political agenda. However, less deprivation exists in local authorities B and C and therefore council priorities do not reflect the needs of vulnerable and disadvantaged groups.

Speed, scale and aggregation of the cuts

Even where the political agenda may be more sympathetic to the need to mitigate social risks faced by vulnerable and disadvantaged groups, the speed, scale and aggregation of the spending cuts is causing considerable difficulties because decisions are having to be taken in such haste that sufficient consideration of social risks is often not possible. This was illustrated by three service managers:

“The difficulty is making decisions and making them quickly, because of the pressure and speed of everything is not conducive to the decision-making process.”

(Youth Services Team Leader, local authority C)

“So while the long-term ambition may feel comfortable, the speed of change without resourcing that [ambition] and without putting in some sort of supported employment mechanism, then we are unsure how that will work.”

(Policy Officer, local authority B)

In some cases this creates additional pressures:

“The speed of the cuts is incredible. Well, what I do know, in terms of the implementation of efficiency savings and service reconfiguration – the training required and the cultural shift – it's been a nightmare. I know people are punch-drunk with it and under significant pressure trying to take on the new learning and change the way we are doing things; organisationally it has been a mammoth task to do. I don't think people have had the time to put their head above the water.”

(Field Practice Manager, local authority A)

On the other hand, local authorities have benefited from the delay of one year (noted above) in the implementation of the cuts in Scotland as opposed to England and therefore have had more time to prepare and learn from their counterparts:

“I think we have had time to think about it. Unlike those [local authorities] in England, we [local government] have had the protection

up here from the [Scottish] government. So we have had that time, whereas down South that's where we can see the short-termism has just happened."

(Finance Director, local authority A)

Although individuals discuss social risk mitigation as part of their daily job routine, it is implicit rather than explicit. We found that there is a lack of systematic codified recording of social risk issues and risk mitigation within the five local authorities as a whole and as part of their decision-making processes. Notwithstanding the aggregative effect of the cuts, given their speed and scale it is necessary to record social risks in an explicit and consistent manner to ensure that everyone is aware of the issues: policy makers, practitioners, voters and service users.

Recognition of risk implications by policy-makers

In preventive discretionary services council departments are seeing major changes as a result of the budget reductions and retraction that are necessary to protect statutory services and hence meet legislative requirements. The challenge for dealing with austerity measures is meeting short-term 'reactive' objectives (such as crisis and intensive support) alongside investment in longer-term future-proofing of services. In terms of considering short-term responses versus long-term impacts one interviewee commented that:

"If I am to be honest [in preventive spend] they [the council] appear to be considering its importance, but in reality they [the council] appear to be between a rock and a hard place."

(Youth Services Team Leader, local authority C)

While some councils use the EIA as a means to protect equalities groups from the negative impacts of the reduced budgets and public service reform, the reduced budgets make it increasingly difficult to focus on preventive spend measures and to provide continued financial support for some key services that are aimed at the most vulnerable.

Other issues include a lack of investment in community regeneration and the need for crisis intervention related to child protection. The failure to focus on the longer-term consequences of under-investment in key areas of development will undoubtedly have an impact on vulnerable and disadvantaged communities living in areas requiring investment.

Apropos child protection, if a child needs to move to secure residential care the impact on the childcare budget is around £300,000 per placement per year. The social work department has no alternative but to finance this even though it may be at the expense of other services.

"The council needs to engage in reactive spend. There are children which require significant support throughout the year which cannot be predicted. We [the council] can all see the need and benefit of preventative spend but it just isn't possible as a local authority to make that commitment in the current economic climate."

(Director of Social Work, local authority A)

In principle, a Scottish Government policy direction exists to focus resources on preventive measures and should be a key objective of public service

reform (Public Services Commission, 2011). In reality case study local authorities are finding it difficult to focus on such measures:

“We do less of the supportive non-statutory stuff than the council used to do and focus more on what we have to do. The irony of that is if you are looking to develop early intervention or prevention strategies, a lot of that really has to be informed by voluntarism – people going along to breast-feeding, healthy eating classes – as they can’t be forced. Although those services currently still exist they are not available to the same extent as prior to budget reductions and volume.”

(Head of Social Work, local authority C)

The Head of Finance at local authority B noted that:

“We have missed an opportunity to sort things out in the past 15–20 years in relation to the separation of discretionary and statutory services. They [the local authority] have never quite gotten the relationship – if we cut here (in one area) then that (in another area) goes out of control. So youth services is a classic example of this; as it is seen to be quick win financially, it is Norfolk which has just stopped all their youth services. What impact will that have on the police in six months time? I don’t think the long-term impacts of service reconfiguration have been considered sufficiently.”

There is a lack of consideration of the longer-term risk implications by policy-makers as budgets for discretionary services are expected to reduce further in prospective years. Given the limitations of the EIA process in assessing the risk implications of services changes to wider socioeconomic groups, this is of concern and particularly so when combined with a lack of consideration at a more strategic level.

Consideration of the totality of service provision

All case study local authorities noted that consideration of the totality of public services has gained momentum as a result of the austerity measures. Local authorities are increasingly developing practices such as service managers working across their own departmental boundaries with other council departments and, ideally, with external bodies so that the various providers of related services join together and align their priorities. Local authority C for example has introduced governance arrangements which make it easier to consider the total effect of service reconfiguration on service users. In this case the housing, social work and education departments operate under one umbrella with a single Director of services overseeing each service. While some local authorities prioritise the totality of service provision, this tends to be limited due to a lack of capacity or sufficient awareness. It was suggested that there should be a shift in focus to outcomes for service users and the local authorities should ‘map’ the services likely to be required by a vulnerable individual or by disadvantaged groups. This should involve all service organisations as there is a risk to ‘distort one and it impacts on something else’. It is evident that while some steps have been made to consider the total impact of various reforms to services with strategic review teams being created, there is little evidence that this is an explicit part of

the decision-making process and therefore there is a risk that this is not considered for all proposals.

Community empowerment

We found that all five local authorities practise some elements of stakeholder community engagement, as they have already carried out various consultations with residents, local communities, young people and employees to underpin the decision-making processes for 2012/13. The purpose of such consultations is to identify the priorities of residents for the protection of services. The budget reduction options included preventive spend, priorities in meeting the needs of vulnerable groups and joined-up working with other partners and local authorities. Consultations took the form of questionnaire surveys, focus groups, community meetings and citizens' panels:

“Yes, we have lots of ways of engaging our stakeholders, from consultation with the parents' groups to trade union representatives. It is very well developed [with regard to] negotiating and consulting arrangements. Parent councils have a sounding board, to which two or three key influencers come into. We have councils in every school that meet regularly; we formally consult with parents around the schools. At a corporate level there is consultation through the citizens' panels on the specific issue of savings for the year coming; that process will come in the near term – November to December. I'm not sure how the discussions are structured but the objective is to get views from citizens'-panel members about efficiency savings.”
(Finance Director, local authority A)

According to the Heads of Social Work and Education in local authorities A, C, D and E *their transparent approach to service reconfiguration in some cases reduced the anticipated negative response to council proposals by local communities. This has resulted in a far more understanding electorate regarding the tough decisions that had to be made. A key issue with community consultation, according to the Head of Social Work at local authority A, is the point in time when the council engages service users and the political implications:*

“One of the key issues of impact assessment for us is that these savings [proposals] need to go through a political process. So the problem is if you consult the service users before the cuts have actually been through the process you might set hares running for something that might not ever actually happen. So it's a real quandary for us as to when you actually start doing the impact assessment and when you start involving people.”
(Head of Social Work Resources, local authority A)

Another contentious point according to the Head of Social Work from local authority D is whether there can be too much community consultation and, in particular, whether it is truly beneficial, perhaps reflecting the uncertainty surrounding the consultation process. *Thus, the real extent to which communities' views are considered as part of the decision-making processes is unknown at this stage.*

Local authority C noted that community consultation is considered systematically as part of their *processes* and provided significant evidence

of its community priorities to councillors. Yet, while there was evidence of the retraction of certain proposals due to their unpopularity among voters, this indicates that community groups have limited and rather reactive powers of veto, as distinct from being proactively and fully empowered and fully engaged in risk-mitigation decision-making processes. Ultimately, the benefits of consultation with voters and with groups of service users are limited by the predominant service-by-service approach to cuts within an organisationally fragmented portfolio of public services.

Innovative financing mechanisms to mitigate spending cuts

Our research found some limited evidence of new innovative financing mechanisms for service delivery to disadvantaged and vulnerable groups which could be used to mitigate social risks. Local authority B provides a good example of community-based innovative financing mechanisms/initiatives for raising money for people with disabilities and for youth groups. Their initiatives include the production of goods to sell, such as locally produced soaps, and the repair and refurbishment of cars for resale. This is part of a strong community spirit which could be attributed to the rural island locality, distinctly different from the other four urban local authorities.

The community regeneration department in local authority C investigates ways of funding posts through their capital funding budgets. The local authority is also exploring ways to provide services via 'spend-to-save' initiatives financed via the Prudential Borrowing Framework. This approach was criticised by the Housing and Regeneration Manager, however, due to future uncertainties associated with the income stream thereby released to repay borrowed money.

Summary of key research findings

The ongoing spending cuts in Scotland have already led to significant reductions in overall public spending, posing considerable challenges to resource allocation within diminished budgets of many public sector organisations, especially local authorities. It has been recognised by our case study local authorities that some disadvantaged groups are more severely affected than other social and demographic groups, in terms of experiencing a higher level of social risks such as poverty, social exclusion, marginalisation and lack of opportunity. This in turn can result in further undesirable social outcomes through a vicious cycle of self-reinforcing cumulative disadvantage. Evidence from case study local authorities suggests:

- At this stage it is not possible to assess the *actual* impact of the UK-wide spending cuts on vulnerable and disadvantaged groups. The impact will not become entirely clear for a number of years as cuts take hold.
- In seeking to protect vulnerable and disadvantaged groups from spending cuts there are difficult challenges in measuring the actual and potential impact of cumulative spending cuts on disadvantaged communities.
- To measure the actual impact of the UK spending cuts on vulnerable and disadvantaged communities, local authorities need to develop more sophisticated systems to capture and evaluate data capable of systematic analysis to inform future decision-making.

- Local authorities may exacerbate current inequalities across disadvantaged communities in their actions to reconfigure public services as a result of reduced budgets for service provision. Cutting public spending has had a particularly negative impact on gender equality in one case study local authority.
- Cuts to public services will not only affect those identified as most at risk but also those on the margins of poverty. Nonetheless, we found that there is no explicit and systematic identification and prioritisation of vulnerable and disadvantaged groups as local authorities found it difficult to prioritise.
- All five case study local authorities engaged in efficiency savings programmes through an internal reorganisation to protect frontline services in the first instance. In service reconfiguration there is evidence of service transfer, service reduction, service withdrawal and increased service charges, all of which have the potential to have an adverse impact on disadvantaged and vulnerable groups.
- The councils appear to have resorted to protecting their statutory requirements as funding for discretionary services has shrunk and tough decisions have to be made. Service delivery has been reduced (rather than withdrawn completely) for some statutory services, the choice between reduction and withdrawal varying from one council to another (see page 24).
- In the five case study authorities there is no evidence of development of completely new risk mitigation processes and criteria specifically in response to the austerity measures. Local authority E is in the process of developing a Poverty Impact Assessment (PIA) and any change in the budget will be subjected to PIA. There was no evidence of the development of 'bespoke' decision-making models or risk mitigation criteria to specifically address austerity measures.
- As a framework for prioritisation, developed prior to the austerity measures taking hold, it was suggested that the Single Outcome Agreement does not reflect the changing priorities resulting from the austerity measures nor does it explicitly refer to risk. It is therefore not deemed suitable as a framework to prioritise service cuts.
- It was suggested that each local authority's guiding principles, to an extent, reflect a political agenda in meeting the needs of the electorate, in terms of political and reputational risk. Even where the political agenda may be more sympathetic to the need to mitigate social risks faced by vulnerable and disadvantaged groups, the speed, scale and aggregation of the spending cuts is causing considerable difficulties because decisions have to be taken in such haste that giving sufficient consideration of social risks is often not possible.
- All case study local authorities noted that consideration of the totality of public services has gained momentum as a result of the austerity measures. It was suggested that there should be a shift in focus to outcomes for service users and the local authorities should 'map' the services likely to be required by vulnerable individuals or by disadvantaged groups.
- We found that all five local authorities practise some elements of stakeholder community engagement, as they have already carried out various consultations with residents, local communities, young people and employees to underpin the decision-making processes for 2012/13. Their transparent approach to service reconfiguration in some cases reduced the anticipated negative response from local communities. The real extent to which communities' views are considered as part of the decision-making processes is unknown at this stage.

5 STAKEHOLDER WORKSHOP

We conducted a workshop with 23 community stakeholders and representatives from Scottish local authorities, government departments, voluntary sector organisations, Improvement Services Scotland, COSLA (Convention of Scottish Local Authorities), SOLACE (Society of Local Authority Chief Executives), senior managers from across the wider public sector and the Scotland Adviser to Joseph Rowntree Foundation.

Innovative approaches to the spending cuts

Workshop participants confirmed the initial findings and provided other anecdotal evidence and general impressions of the emerging impact of austerity on local government services. They took the view that local authorities should consider *utilising the resources available across the public sector as a whole through more innovative ways of working*, for example improved partnerships. This means that they should not only consider their own budgets but also those of other agencies when seeking to manage austerity and to mitigate social risk. Considering only their own budgets limits the ability of a local authority to focus decision-making on service user needs, particularly for the most vulnerable, with the focus instead being on meeting financial constraints. In this economic climate local authorities find themselves in financial (rather than legislative) handcuffs and they may resort to 'cost shunting', in other words cutting their own spending but consequently (by design or default) shifting those costs on to other public sector bodies with no savings being achieved by the public sector as a whole. An example is where reductions in local authority spending on social care of older people leads to increased emergency admissions to hospital, overall costs to the public sector increasing as a result.

Unfortunately, the ongoing structural reforms of health, social care and policing do not facilitate a holistic joined-up approach to the design and implementation of austerity measures, as those service reforms promote vertical (not horizontal) integration and thereby frustrate local control.

It was also suggested that *the role of the third sector should be more prominent*, there being scope to develop partnership delivery between local authorities and voluntary sector organisations, and for Community Planning Partnerships (CPPs) to improve joined-up thinking in service delivery. It was thought that such an approach does not require the development of new arrangements, but builds on existing structures instead. Yet, the Head of Housing and Regeneration at local authority C criticised the role of the CPPs, in terms of provision of financial resources and their overall effectiveness. He noted that while the partners sign up to the objectives of the CPP agreement they do not always fully engage in joined-up working and deliberation of resources. Such partnerships in local authority C appear unbalanced, and he suggested that a review of the current systems would be valuable to improve outcomes and effectiveness of joined-up working.

Social risk impact and barriers to implementation

The term 'social risk' was welcomed by workshop participants as a 'new language' which could overcome the limitations of the cultural issues associated with the equalities and human rights agenda. The social impact of budgetary measures is lost when focusing on their implications for the equalities agenda. Additionally, the human rights agenda seems vague and difficult to understand, and so relating it to austerity measures is problematic. Hence, it was suggested that 'social risk' is a useful term to use as heads of service may understand it better than the terminology linked to the equalities and (in particular) human rights agendas.

Irrespective of the differences in these conceptual and practical toolkits, ideally they should all lead decision-making in the same direction: towards a compatible generic outcome. It was also stressed that *whatever the decision-making toolkit, there still needs to be a desire to mitigate the impact of austerity.* The case study results suggest that local authorities do want to consider social risk more than they currently do but they do not have the time or capacity to innovate, and instead fall back on EIAs.

Despite acknowledging that equalities and human rights agendas should be at the core of decision-making in local government, it was suggested that there are often *barriers to their implementation*. These barriers include the complexity of the public service sector, the political agenda (which often means that equalities issues are ignored or viewed as a tick-box exercise) and a compliance-based (rather than a needs-based) approach. According to the view of one participant, *rational and reasonable decision-making may not cover the political dimensions of taking tough decisions*, suggesting that we should take into account the political dimensions.

Attendees identified *another barrier as lack of guidance from the Scottish Government*. Although guidance exists for the EIA process, it was criticised as being too generic and it was noted that more specific guidance is required which refers to the different nature of services delivered.

Likewise, *the Single Outcome Agreement (SOA) is both too narrow and too broad to facilitate mitigation of social risk*. It is too narrow in terms of not covering the whole of the Scottish public sector and yet too broad in having adopted (by default rather than by design) a risk-neutral stance. In order to formalise risk mitigation decision-making, it would have to include the other

two-thirds of the public sector, most notably the NHS, policing and child protection. It would also have to specifically recognise that the level and scope of decision-making is important and its cumulative ramifications over the years should be considered in the mitigation of social risk.

At the same time a consistent and joined-up approach is required across all 32 Scottish local authorities. They face a trade-off when considering the impact on service users of proposed cuts and service reconfigurations as distinct from that on the organisations themselves. Making services more resilient is not necessarily the same as protecting disadvantaged groups and making people more resilient in conditions of austerity.

Even if all these barriers could be overcome in principle, attendees noted that *it is difficult in practice to incorporate policy lower down in the organisation. In particular, it was emphasised that a cultural change is required for local authorities to embrace new ways to deliver services as individuals and departments struggle to grasp the importance of adopting new ways of working.* Those new ways require a new risk mitigation language, a much more detailed SOA and more robust strategic management, all three being important in the approach to risk mitigation.

Moving towards risk mitigation decision-making

There was *resistance by some workshop participants to the development of “another assessment tool”.* Rather than yet another assessment tool, they thought that *guidance should be issued specifically for addressing the impact of social risks created through changing service delivery, especially for vulnerable and disadvantaged groups.* This would require local authorities to utilise that guidance to inform their decision-making processes and to consider the ‘social risk impact’ of their austerity measures, embedding its consideration as part of daily operations.

However, attendees identified a gap between the data requirements of the different levels of government, exacerbated by the way in which available information is (or is not) shared. It was suggested that *information provided to local authorities regarding the impact of austerity measures is inadequate and that they are uncertain about the indicators to be used to judge success or failure of those measures.* This is exacerbated by the *lack of up-to-date data for vulnerable and disadvantaged groups about the impact of the cuts.* Furthermore, data in one part of the public sector often cannot ‘speak’ to another part; for example, the financial data in health authorities and local government. Put simply, the ways in which data is held in the different parts of the public sector are often incompatible with each other. Additionally, there needs to be a two-way flow of data between the two levels of government.

Hence, organisations and their services need to be joined up not only in terms of their delivery but also in terms of their data and its analysis. Joint planning will remain more problematic and less effective the slower the public sector as a whole is to develop compatible data series and to share that data, including its analysis.

In moving forward beyond the research findings, it was suggested that *scenario planning around the impact of the cuts and of UK welfare reform would be advantageous for local authorities in that they would be better prepared.* Furthermore, further discussion is required around the role of finance and the impact on service delivery of back office cuts. The foregoing analysis of deficiencies pertaining to the assessment and mitigation of social risks arising out of austerity has made clear that back office and short-term cuts will almost certainly affect frontline services in the not too distant future.

Claims that frontline services can be protected if only back office functions are cut are either too simplistic or disingenuous. Those claims either reflect a myopic and narrow approach to cost savings or provide a comforting but false reassurance that the levels and quality of services can be maintained notwithstanding the very substantial cuts in council budgets. Whether overly simplistic or disingenuous, neither scenario is indicative of a professional and socially acceptable approach to austerity measures.

Workshop participants identified the need for a *'next' risk mitigation practice, which follows on from EIAs. It is not that the research has identified cases of 'good' or 'bad' practice but, instead, it has identified the need for 'next' practice to inform future policy- and decision-making.*

What *'next'* practice must do is improve the role of social risk evaluation, and respondents at the workshop expressed the hope that further research can support local authorities to *identify a 'gold standard' of risk mitigation practice for benchmarking purposes.* This requires gathering and analysing high quality evidence of the potential and actual impacts of preventive measures. However, it was noted that it is very difficult to calculate the costs of outcomes; what we have at the moment is information on outcomes without the matching data on inputs (and processes and outputs) and, conversely, information on inputs without subsequent outcomes.

'Next' practice must include engaging the Scottish Government in social risk mitigation practice when determining budget allocations to individual local authorities. It was acknowledged that the Scottish Government now undertakes to publish an 'Equality Statement' to accompany its annual budget statement and spending review. However, it was suggested that this needed to be more specific to address the differential needs of local authorities.

Importantly, *it was suggested that in order to get local government involved in the assessment of social risk, there should be a link between the identification of social risks and the potential consequent cost in monetary terms (but also non-monetary terms such as societal impact) to be faced by a council in, say, ten years due to increased demands on public services as a result of the austerity measures.*

Such information is expected to incentivise local authorities to protect disadvantaged and vulnerable groups so as to also protect their own budgets in the future. Without such information local authorities will inevitably retain a short-term approach in dealing with austerity because the financial and budgetary cuts are *'here'* whereas the effects of those cuts are *'there'* (i.e. in the future) and so preventive measures to mitigate the effects of those cuts on disadvantaged and vulnerable groups receive insufficient attention.

Attendees noted that models of risk assessment and prevention already exist in the Scottish public sector in respect of community safety, namely the fire service's community safety advice and the community policing service. Delegates reported that the SOA and CPPs are already developing this form of risk assessment. Nevertheless, *they also suggested that this approach needs to be made more systematic, holistic and formalised* so as to help identify and plug any gaps in risk assessment and risk mitigation, writing down and codifying risks by going through a variant of the EIA process. Finally, it was noted that the Public Service Improvement Framework could possibly help to connect financial numbers with the impacts of austerity measures, but how it could do so was not considered.

6 CONCLUSION

A codified approach to management and mitigation of social risk

Although there is an emerging dialogue around social risk issues within the case study local authorities, at this stage there is no process or procedure which explicitly captures the consideration of increased social risks. This is of considerable concern due to the limitations of the equalities impact assessment (EIA) process in considering wider social risk implications.

Certain service areas such as social work and education seem to be more familiar with the social risk issues and the impact of the austerity measures on vulnerable and disadvantaged groups, whereas other services such as housing and finance seem to be less aware. In this case it is important that the consideration of social risk is codified systematically and comprehensively so as to ensure that policy-makers and practitioners consider the social risk implications of austerity measures on vulnerable and disadvantaged groups. To do this local authorities need to be more innovative and develop new criteria to meet the needs of disadvantaged and vulnerable service users.

To complement existing processes we propose a prototype decision-making framework which would assess the potentially adverse social impacts of service reconfiguration in responding to austerity. Drawing on best practice from the local authority case studies, this '**social risk impact assessment**' (SRIA) model of decision-making will complement the existing EIA and other such assessments while encompassing those groups which fall outside the boundaries of specific and statutory equality and poverty criteria.

The results of this research identify the need for social risk mitigation to be embedded within the decision-making processes as much more progress needs to be made much faster in order to address this glaring deficiency. It behoves each local authority to develop a SRIA procedure by acting in concert with their local stakeholder groups, with the voluntary sector, with other public sector organisations and with national and regional governments to inform their decision-making and hence avoid unnecessarily high social risks (and consequently higher future costs to the public sector) arising from the scale, speed and aggregation of their austerity measures. The following chapter recommends how such SRIA process can be developed.

7 RECOMMENDATIONS

We recommend that service organisations may benefit from the consideration of a new category of ‘social risk’ which is associated with the introduction of further disadvantage and/or marginalisation of groups and individuals. The term ‘social risk’ and ‘social impact’ was identified in the workshop as a new language which could overcome the limitations of the cultural issues associated with the equalities and human rights agenda. Often the social impact of budgetary measures can be lost when attention is focused on their implications for the equalities agenda. Additionally, the human rights agenda has been described by some local authority respondents as being vague and difficult to understand, and so relating it to austerity measures can be problematic. Hence, during the workshop, it was suggested that ‘social risk’ is a useful term to use as heads of service may understand it better than the terminology linked to the equalities and human rights agendas.

We identified the limitations of the EIA which make it unsuitable as a risk mitigation tool. Despite acknowledging that equalities and human rights agendas should be at the core of decision-making our respondents suggested that there are often barriers to their implementation, which include the complexity of the public service sector, the political agenda (which often means that equalities issues are ignored or viewed as a tick-box exercise) and a compliance-based (rather than a needs-based) approach. Rational and reasonable decision-making may not always cover the political dimensions of taking tough decisions, suggesting that the political dimension should be taken into account.

Existing guidance for the EIA process was criticised by respondents as being too generic and it was noted that more specific guidance is required for different types of services. Thus any reform of impact assessment should take account of this suggestion. Overall, our research has identified the need to move beyond the EIA and look at the 'next' category of risk mitigation practice which follows on from EIAs and embraces wider issues related to further disadvantage and negative social outcomes. To complement existing processes we propose the development of a prototype decision-making framework which assesses the potentially adverse social impacts of service reconfiguration in local authorities. The following recommendations were derived from our research:

- If their austerity measures are to be well informed, local authorities must consider fully and explicitly the negative implications of the ongoing budget cuts to protect their local vulnerable and disadvantaged communities.
- Local authorities and other public service organisations could make their decisions more sustainable if they participate in a dialogue that explicitly captures the consideration of increased social risks for vulnerable and disadvantaged groups as a result of the austerity measures. This dialogue requires a joined-up consistent approach across all 32 Scottish local authorities and other public sector organisations, including the fire and police services in their community safety roles.
- For that dialogue to be truly effective in managing and mitigating social risk, all public sector organisations need much more compatible, relevant, robust and comprehensive time-series data that can be analysed in order to identify potential and emergent social risks.
- The Scottish Government could help councils deal with austerity by facilitating development of the capacity for the collection and analysis of reliable and comprehensive data on the social risks faced by vulnerable and disadvantaged groups. Such data could be used as evidence for decisions related to service cuts and reconfiguration.
- To achieve new ways of service delivery, local authorities will have to focus on a change in organisational culture in order to embrace innovative approaches to service delivery. That new organisational culture could fully engage and empower local communities in deciding on the implementation of austerity measures and the amelioration of potential social risks through co-design and co-production of services, and by utilising existing and as yet untapped skills and capacity in the voluntary and community sectors through new organisational forms, including mutual and co-operative models of service provision.
- Having identified 'poor' and 'good' social risk management practice a 'next' stage of risk mitigation practice is required in order to inform future policy- and decision-making. To assess the potential and the actual impact of budget cuts local authorities need to evaluate the social risks arising from austerity measures, focusing on the interconnectivity of service needs and social risks, and recognising how the speed, scale and (in particular) aggregation of cuts compound the social risks faced by vulnerable and disadvantaged groups.
- Councils could better protect vulnerable and disadvantaged groups if they were to adopt a 'total needs' approach which focuses on intended outcomes for service users, not just the 'total place' initiative which is simply a cost-saving service-based approach to austerity. The 'total needs' approach would require the range and extent of social risks affecting local

vulnerable and disadvantaged groups to be comprehensively identified and evaluated as a part of the decision-making process.

- The 'total needs' approach makes clear that local authorities consider the limitations of the EIA as a means for social risk mitigation and that they should adopt bespoke risk mitigation decision-making models, frameworks and criteria which would ensure the protection of *all* vulnerable and disadvantaged groups, communities and individuals, not just those with EIA-protected characteristics.
- Social risk mitigation is a strategic consideration which could be embedded into all service reconfiguration decisions. This means that, while addressing the totality of service needs, local authorities should place emphasis on communication with vulnerable and disadvantaged groups and their empowerment in decision-making.

Local authorities have scope to develop other revenue sources from which income can be raised to obviate the need for service cuts, including service charges. Nevertheless, it is important that price is not a barrier to accessing services and this possibility should be a key consideration in developing charging practices that take account both of need for service and ability to pay in order to better focus subsidy on disadvantaged and vulnerable groups.

Such sophisticated and socially progressive use of charging can be implemented by seizing the austerity-engendered opportunity to both improve and de-politicise the charging process by engaging in a transparent approach to public engagement in local decision-making.

If the SOA is to guide councils' strategic responses to austerity measures, it would be important to update it to reflect the changing priorities in local service delivery and the considerable social risks arising out of austerity. A revised SOA may recognise that the current range of free public services made universally available irrespective of need for service and ability to pay cannot be justified.

To ensure future proofing of services, local authorities can lead the way for developing long-term strategies for mitigation of social risk while balancing short-term and long-term measures. The UK and Scottish Governments could support this by recognising the social risks resulting from budget cuts and other austerity measures and provide relevant guidance to local authorities and other public service organisations.

NOTE

- 1 Protected characteristics include age, race, pregnancy and maternity, disability, religion and belief, marriage and civil partnerships, gender reassignment, sex, sexual orientation.

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APPENDIX 1

Council funding in Scotland: devolution and austerity

The UK context

The proportion of local authority finance raised in the UK by taxes set by councils is, and has for a long time been, low by European standards and is reflected in a relatively high dependence on central grants. There has also long been a relatively low ratio of income derived from fees and charges and very restricted use of borrowing. Nevertheless, local government expenditure in the UK has long been relatively high as a share of both GDP and general government expenditure compared with other major EU countries such as France, Germany, Italy, but not Sweden. Local governments in other countries are not so heavily dependent on property tax, also taxing incomes, profits and expenditures (Bailey, 1999, 2004).

The relatively high proportions of total public spending accounted for by UK local governments, narrow local tax base, low proportions of revenues from charges and over-dependence on central government grants means that councils are very vulnerable to the public sector austerity measures being imposed by the UK Coalition Government.

The Scottish context

Typically, before the onset of austerity, over 90 per cent of local government total gross expenditure had been accounted for by *revenue expenditure*, of which just over a third spent on employee costs, just over two-fifths on other operating costs, and loan charges being the next largest expenditure item at just under a tenth of revenue expenditure. *Capital expenditure* has typically accounted for less than a tenth of total gross expenditure and has been mainly financed by sales of fixed assets and revenue contributions to capital outlay, these two sources being almost equal and together accounting for three-fifths of capital expenditure. Borrowing typically finances only two-fifths of capital expenditures. Given that loan charges have to be paid irrespective of the austerity measures and that capital expenditures are a small proportion of total spending, *the structure of expenditures means that cuts must by necessity focus on employee and operating costs of services.*

Central government grants (including Council Tax Benefit subsidy) accounted for 62 per cent of Scottish local authorities' *revenue income* in 2010–11, 12 per cent coming from fees and charges including rents, 11 per cent from non-domestic (i.e. business) property tax, 11 per cent from council tax (excluding Council Tax Benefit subsidy), the remaining 4 per cent being 'other income' including that from interest on cash balances.

The situation is much the same in the rest of the UK, the widely quoted 85:15 (previously 80:20) ratio for grants to council tax being in respect of expenditure net of income from charges for services and treating business property tax revenues as central funding. Hence, *although still heavily dependent on central funding, local authorities are not as heavily dependent on grants as generally perceived*. The proportions of these categories of revenue and spending can be expected to change, some perhaps quite radically, as a result of the UK Coalition Government's austerity measures.

Constraints on Scottish councils' own-source revenues

On average, Scottish local authorities have typically financed only about a fifth of their *general fund revenue expenditure* from their own-source revenues, broadly 15 per cent from council tax and 5 per cent from fees and charges (exclusive of rents). Thus, to increase spending on their main services by one per cent, revenue from their own sources would have to rise by 5 per cent, a gearing ratio of 5. If that rise in expenditure were to be financed wholly by council tax the gearing ratio rises to almost 7. Likewise, the gearing ratio for fees and charges is 20.

Hence, *if councils were to seek to offset their losses of grants by increasing their rates of council tax and/or levels of charges both these own-source revenues would be subject to high gearing ratios*. This makes it very difficult for councils to manage austerity other than by means of immediate reductions in their expenditures on employee and operating costs commensurate with the speed and scale of cuts in their grants.

The gearing ratio, and its corresponding financial constraint, is greatest for those authorities with relatively high expenditure need per head of population, relatively low taxable resources per capita and relatively high service costs (e.g. due to sparsity of population) because they receive proportionately higher levels of grants from the Scottish Government.

Hence, *councils with relatively high proportions of disadvantaged and vulnerable groups face the highest gearing ratios and so are much less able to mitigate the austerity-induced social risks faced by those groups than more affluent/low need local governments*. The fact that incremental spending is constrained most where need for mitigation of social risk is greatest seems anomalous but is an inevitable outcome of high dependence on inter-governmental grants.

In fact, the rate of council tax has been frozen since 2008–09 as part of the Concordat voluntarily agreed between the Scottish Government and the 32 councils. In theory, an individual council could choose to abandon the freeze (and, thereby, the Concordat?) but this course of action seems highly unlikely. This is because the Scottish Government has allocated larger grants to councils to (largely if not wholly) offset the loss of council tax revenues over the five years rates have been frozen. To 'unfreeze' council tax would therefore yield little additional revenue because grant would most probably be reduced by almost the same amount as the tax revenue gained.

More likely would be all councils taking united action (via COSLA) to unfreeze council tax as the Scottish Government's ability to offset the freeze becomes increasingly limited by its own loss of funding as a result of the reductions in its block grant based on the Barnett formula which it receives from the UK Government (see Appendix 2). As long as council tax rates remain frozen local authority incremental budgeting will largely follow the Scottish Government's expenditure plans and so will effectively be indirectly subject to the Barnett formula's transmission of austerity.

However, unfreezing council tax to allow councils to break free of the Scottish Government's Barnett formula 'fiscal handcuffs' would be

problematic because its high gearing would exacerbate the problems associated with that tax. These include council tax bills based on house values and so not directly related to ability to pay, that vertical inequity being exacerbated by the range of council tax bills being very much less than the range of incomes of council tax payers (there being only eight house valuation bands), about a third of families and two-fifths of pensioners not claiming the Council Tax Benefit to which they are eligible, and bills having previously risen much faster than average earnings.

The severity of these problems has diminished over the five years of the tax freeze, household bills having fallen in real terms relative to retail price inflation. However, this real reduction in tax bills has benefited households who would otherwise have paid the tax. *The freezing of council tax has not benefited low-income households eligible for full Council Tax Benefit. Instead, by freezing council tax, the Scottish Government has been subsidising from its own budgets households that could not reasonably be considered to be vulnerable and disadvantaged. This has been done at the cost of Scotland losing money it would otherwise have received from the UK Exchequer in the form of extra Council Tax Benefit subsidy that would have been induced by increases in council tax over the last five years. That lost subsidy could have been used to mitigate the social risks being faced by vulnerable and disadvantaged groups.*

However, if council tax were to be unfrozen and councils immediately sought to raise substantial sums of additional money by raising council tax bills the expansionary impact on Council Tax Benefit payments would almost certainly lead to capping of Benefit payments. In the years prior to the freeze, council tax rebate grant had risen faster than general revenue funding (formerly known as the revenue support grant) and the UK Labour Government had limited the degree to which higher council tax bills in Scotland could be used to lever additional social security spending in Scotland.

If the Scottish Government were to allow higher than assumed council tax bills it would have to finance the additional payments of Council Tax Benefit from within its own grant from the Westminster government. This would result in a transfer of public spending to councils from non-local government services such as health care. Thus, the Scottish Government has previously required councils to contribute towards the Council Tax Benefit costs of 'excessive' council tax increases.

Given the high gearing of council tax, it is highly likely that increases in bills would indeed be 'excessive' if councils sought to make up for cuts in their grants and 'catch up' by raising council tax bills to the levels that they would otherwise have been without the freeze. Hence, there would inevitably be a restriction on the amount of net additional finance accruing to both Scottish Government and councils.

Specifically, the 1997 White Paper *Scotland's Parliament* (Cm 3658, para. 7.24) clearly states that it is open to the UK central government to take 'excessive' local authority self-financed expenditure into account in considering its level of support for expenditure in Scotland. 'Excessive' would be judged in terms of the growth of this category of expenditure relative to that in England, such as to threaten targets for public expenditure as part of the management of the UK economy. The UK central government would intervene if the Scottish Parliament failed to exercise its powers to control local authority current expenditure through council tax freezing, capping or other means.

Ironically, therefore, the council tax freeze appears to have exacerbated the public sector austerity in Scotland, will continue to do so even if it is abandoned,

and has reduced the scope of councils to mitigate austerity-induced social risks by offsetting reductions in their grants by increasing their rates of council tax.

Local service charges are therefore virtually the only option left to offset reduced grants. However, the gearing ratio for charges is very much greater than that for council tax. Although this does not preclude increased use of service charges, it severely limits their ability to raise revenue to offset losses of grant and emphasises that their use should be based on both ability to pay and need for service (see Appendix 3).

Constraints on the Scottish Government's revenues

The Scottish Parliament has responsibility for health, education, local government, housing, transport, economic development, agriculture, social work, sport, the arts, and civil and criminal law. Those matters which have broader implications for the whole of the UK have been reserved to Westminster; these include defence and foreign policy, macroeconomic policy, employment legislation and border controls.

Although legislative power for devolved functions lies with the Parliament in Edinburgh, much of the service provision is within the remit of local government. In effect, *the Scottish Parliament's role is largely an extension of the resource allocation role performed by local government, though its powers have allowed it to move beyond this into a distributional role, evidenced by the abolition of up-front student tuition fees, the introduction of free personal care for the elderly and so on* (see Appendix 3).

Despite the breadth of functions devolved, there has not so far been an equivalent devolution of financial resources. Instead, there has been a continuation of the arrangements prior to devolution and thus Scotland's revenue from Westminster continues to be on the basis of an assigned budget determined by the Barnett formula (see Appendix 2).

As part of the devolution settlement, the Scottish Parliament was granted the power to alter (i.e. raise or reduce) the standard rate of UK personal income tax by up to 3 pence in the pound and thereby the right to raise revenues by an equivalent amount. The Calman Commission (2009) reported that if it had been used to the full it would have increased the Scottish Budget by a little over £1 billion, compared with total spending of around £30 billion. However, in 2010 the Scottish National Party government 'surrendered' its power to levy this tax. Those 'tartan tax' revenues could otherwise have been used help manage austerity and, in particular, mitigate the associated social risks.

The Scotland Act 2012 introduced a new power with which the Scottish Parliament will be able to affect the amount of income tax to be paid by Scottish taxpayers and so the amount that the Scottish Government will have to spend. The Scottish Parliament will be able to set the rates of income tax lower or higher than the rates that apply in the rest of the UK on the basic, higher and additional rates (all three rates going up or down by the same percentage relative to the UK rate). However, the UK Coalition Government proposes that the Scottish rate will apply from April 2016 and there is no prospect of it being used before then to raise additional tax revenue to help manage austerity. Whether rates of income tax rise, fall or stay the same as UK rates thereafter remains to be seen but by then the larger parts of cuts to services are scheduled to have already been made.

Put simply

- Believing Scotland is in a better position to cope with austerity is false.
- The Scottish Government can do little to offset the UK austerity measures.

-
- Scottish councils face even more restricted local finances than elsewhere in the UK.
 - Service charges are the only immediately available local source of additional finance.

APPENDIX 2

Transmission of austerity via the Barnett formula

Rationale

The Barnett formula has been used since 1978 to recognise higher per capita expenditure needs in Scotland, Wales and Northern Ireland compared with England. Per capita spending needs were thought to be higher in Scotland in the late 1970s due to its greater sparsity of population (e.g. leading to smaller schools and class sizes and so higher education spending per pupil), relative ill-health, adverse industrial structure, and lower income per head compared with England. Not all of these expenditure needs indicators apply as strongly today but it is still generally accepted that Scotland faces a higher need to spend per head of population than does England, though by how much is open to question.

What the formula does and does not do for Scotland

The Barnett formula automatically applies to Scotland a proportionate population share of any change in comparable English spending programmes. Hence, it largely determines the Scottish Government's *incremental block grant* from central government on the basis of UK-level public expenditure decisions made at Westminster.

It is important to stress that the formula does not determine *total* public expenditure in Scotland or changes in it. The Barnett formula is only applied to *devolved* expenditures that are *comparable* with England, for example education, health and personal social services, housing, other environmental services, law and order (see Appendix 1). Devolved expenditures not comparable with England include water and sewerage services (privatised in England but not in Scotland). Non-devolved services such as social security payments and defence expenditures are also not subject to the formula.

In terms of public expenditure planning, the Barnett formula does not affect Annually Managed Expenditures (AMEs) such as social security, only *comparable* Departmental Expenditure Limits (DELs) such as school education. Scotland's DELs and AMEs totals are approximately the same (i.e. each about half) of Total Managed Expenditures (TME). The formula applies to about four-fifths of Scotland's total DELs.

Thus, *the Barnett formula currently applies to less than half of public expenditure in Scotland.* Moreover, the formula does not affect uniform adjustments (e.g. NHS pay awards) to all UK territories and does not affect exceptional and unforeseen costs (e.g. flood damage) within individual territories. These adjustments bypass the formula. Hence, *the formula does*

not determine total public expenditure in Scotland nor even total devolved expenditure or changes in those two totals.

The Barnett formula does not even determine *total devolved comparable* expenditure in Scotland. This is because the bulk of comparable devolved public expenditure is determined by past decisions, also financed by council tax, fees and charges, borrowing and so on.

Furthermore, the Barnett formula does not determine the breakdown of public expenditure in Scotland. The Scottish Parliament and councils decide what to spend on individual devolved services.

Transmission of England's austerity to Scotland

As already noted, the Barnett formula works simply by giving to Scotland a fixed proportion of *changes* in the plans (DELs) for comparable English expenditure programmes. In past years of rising public expenditures the effect of the Barnett formula on public spending in Scotland was that it guaranteed Scotland a share (based on its population) of any increase in comparable English expenditures.

That proportion was added to the Westminster block grant for Scotland as the planned increases in English public spending took effect. The proportion received by Scotland is based on its population relative to England's (currently about 10%). Hence, if a UK Government department's DEL increased by £100 million and 95% of that programme is comparable with Scotland and Scotland's population is 10% of England's population, then the increase for Scotland is £9.5 million (i.e. $£100m \times 0.95 \times 0.10$). Hence, Scotland received more money per head of population than the previous year as England's public spending on comparable services increased.

In particular, the previous UK Labour government's rapid increases in spending (as it sought to rectify the UK's relatively low spending ratios relative to GDP for health, education and capital expenditures) benefited Scotland through application of the Barnett formula to calculation of the block grant paid to it by the Westminster government.

However, as noted above, the Barnett formula applies to changes (i.e. both increases and decreases) in spending in England and so it now works in reverse to reduce the block grant paid to the Scottish Government by the Westminster government as the latter cuts comparable spending in England. Hence, *during the current era of public sector austerity, the Barnett formula has become the means by which austerity is transmitted to the UK territorial governments – Northern Ireland and Wales as well as Scotland.*

Put simply

The Barnett formula:

- applies to *less than half* of public expenditure in Scotland;
- only determines *changes* in that part of expenditure from year to year;
- does *not* apply to social security payments;
- does *not* determine the breakdown of devolved spending;
- *transmits austerity* to Scotland;
- *does not protect Scotland* from the UK austerity.

APPENDIX 3

Austerity under localism, devolution and independence

All three major UK parties have proposed the end of the highly centralist state, all claiming to be advocates of true devolution of public services. All three propose further devolution of power but the precise meaning and extent of devolution and localism varies between the parties.

What all three UK parties do agree on is a greater role for the private sector as well as greater scope for choice by service users (e.g. for health and education services). All three plus the Scottish National Party propose or support development of forms of not-for-profit trusts, mutuals and social enterprises to provide public services, now generally now referred to as the 'Big Society'.

Localism

Localism refers to introduction of a new 'constrained discretion' model of policy-making. There is a cross-party consensus in favour of localism, the general aim being to make public service delivery more effective by allowing public service managers more discretion and implementing much greater devolution of power to the local level.

The UK Coalition Government's intention is to further develop this model to encompass local government in England to encourage flexibility, responsiveness and creativity to meet service user needs and demands during the current public sector austerity. This greater devolution in the form of localism is to be matched by clear long-term goals and strong accountability. Constrained discretion means that localism provides no easy route out of austerity via a spending splurge.

The UK political parties' proposals for financing local government within this new localism differ quite radically. The UK Liberal Democrats is the only party to favour a true local income tax. It would make local authorities responsible for raising the majority of their own income and would be more closely related to ability to pay than council tax. However, it would not necessarily result in additional money for public services because it would reduce (but not eliminate completely) the need for payment of equalisation grants to local governments and would almost certainly be subject to central government capping via a maximum allowable rate of tax consistent with macroeconomic policy. Indeed, all three political parties accept the argument for consolidation of the public finances.

Additionally, although a local income tax takes account of ability to pay it may not necessarily do more than Council Tax Benefit to relieve financial pressure on low-income groups and it cannot help target service benefits

on disadvantaged and vulnerable groups. Hence, introducing a local income tax to replace or reduce the financial burden on council tax is not a solution to local austerity, not a means of mitigating social risk and may do little to reduce gearing (see Appendix 1).

Although also being in support of a version of localism, the Conservatives proposed a reduction of local authority service responsibilities and tax cuts, the latter now being regarded as not feasible for the foreseeable future. They pledge ultimately to cut taxes on people and businesses while maintaining the levels and standards of public services. This they plan to achieve by reducing inefficiency in service provision, by reducing wasteful use of public finance and by using the extra tax revenues generated by the economic growth that they hope will arise spontaneously as reduction of the public sector creates room for the private sector to expand by reducing 'crowding out'.

The previous UK Labour government sought to increase localism in England by removing reserved council tax capping powers for councils assessed as 'high performers'. Councils were also given greater discretion as to how much they can prudently borrow utilising the Prudential Borrowing Framework (Bailey *et al.*, 2009, 2010, 2012; Bailey and Asenova, 2011) and legislation introduced in 2003 allows greater local discretion in charging for services (Bailey, 2010). Both powers have also been introduced in Scotland.

Notwithstanding such laudable intentions to increase localism, in practice councils are becoming ever more dependent on intergovernmental transfers in being subject to capping (in England) and freezing (in Scotland) of their council tax rates over extended periods of time (see Appendix 1).

Devolution

The Scottish Parliament has extensive legislative powers for services but is not so well endowed in terms of financial autonomy in their funding. Provision of most services is within the remit of local government. Hence, the Scottish Government could be seen as little more than a financial intermediary through which grants are channelled from the UK central government to the Scottish public sector. However, it has recently sought to influence the spending allocations of Scottish councils through the Concordat and its payments of grants based thereupon.

Relatively recent decisions of the Scottish Parliament to scrap some charges have arguably reduced its capacity to manage the UK austerity measures because these decisions have increased demands on services while reducing their incomes. First, the abolition of up-front university tuition fees led to increased take-up of university places. Second, the abolition of charges for personal care of frail older people led to increased take-up of care services. Third, free bus travel for all senior citizens and disabled card holders led to increases in travel by these two groups and, consequently, in the subsidy that the Scottish Government pays.

The financial implications of abolition of charges in Scotland but not in England are not allowed for in the Scottish Government's block grant paid by the Westminster government because Scottish spending decisions are not funded via the Barnett formula (see Appendix 2).

As is the case for the freezing of council tax (see Appendix 1), the groups benefiting disproportionately from making these services free were not vulnerable and disadvantaged groups because the latter's use of these services is disproportionately low (e.g. universities) or they already received financial support (e.g. personal care). The picture for free bus travel is more mixed but people aged 60 and over qualify notwithstanding the fact that

many are still in employment (and so can travel to work by bus for free) and by no means all pensioners are poor (e.g. those with occupational pensions).

Scottish local authorities claimed that the Scottish Government's decisions to increase the range of free services were not properly 'costed', especially free personal care. These free public services therefore increase the pressure on both the Scottish Government and local authorities to achieve cost savings in other devolved services. The result is that there is less financial flexibility for the public finances to be used to mitigate the social risks faced by disadvantaged and vulnerable groups as a result of the UK austerity measures,

Hence, the universal nature of these free services does little or nothing to mitigate the social risks of austerity and may even increase them by diverting scarce funds from services of particular benefit to vulnerable and disadvantaged groups.

Local authorities retain powers to levy charges and need to develop corporate policies for their use, considering how they may promote Best Value during this era of austerity. Service charges are very underdeveloped in this respect but well developed socially responsive charging methodologies exist (Bailey, 2010). Although it has to be recognised that they are subject to a much higher gearing ratio than council tax (see Appendix 1), in combination with service vouchers, charges could be used to mitigate austerity-induced social risks by taking account of both ability to pay and need for service (Elliott *et al.*, 2010; Valkama *et al.*, 2010).

Charges should not be used primarily to raise additional revenue but, instead, to focus the benefits of free and partially subsidised services on disadvantaged and vulnerable groups. The better targeting of support via such socially progressive charges would be more effective in mitigating austerity-induced social risks than any extra revenues they raise.

Independence

The Scottish National Party claims that an independent Scotland would be financially better off and so less subject to austerity. It argues that Scotland raises more in taxes than is shown in general government accounts, the main area of disagreement being over the division between Scotland and England of tax revenues from North Sea oil and gas operations.

However, even if division of those tax revenues is redrawn to favour Scotland's accounts, a future fall in their amount could result in an independent Scotland facing a potentially severe budget deficit which it may not be possible to finance by borrowing. This would be the case if an independent Scotland was subject to the EU's Fiscal Compact which requires public sector debt to be reduced. In that case, Scotland's public spending would have to be cut, perhaps by even more than the UK Government requires.

Even if the Scottish National Party is right about the potential contribution of Scotland's oil and gas tax revenues to a future Scottish exchequer, there may not be significantly more money for public services in an independent Scotland because the Westminster block grant would be scrapped. In fact, independence would require Scotland to pay England sufficient money to cover its share of defence, foreign policy and other UK-level functions of government. Depending on the relative levels of those amounts, independence could conceivably reverse the current net flow of funds from England to Scotland.

With independence, all taxes would be set and collected by the Scottish Government and so it could choose to increase taxes to avoid the need for cuts in public spending. How likely this would be is open to question because

the 'tartan tax' powers to vary the rate of income tax were never used (see Appendix 1). Moreover, there may be an element of tax competition between England and Scotland, each country restraining (if not competitively cutting) the levels of taxes it imposes on geographically mobile business and labour. Such harmonisation is already the case for the business property tax.

Loss of footloose people and businesses could be reduced if higher taxes on them were used to improve the quantity and quality of public services they receive. However, this would limit the extent to which any extra tax revenues were used to finance mitigation of the austerity-induced social risks faced by disadvantaged and vulnerable groups.

These constraints would put an emphasis on engineering high rates of economic growth to increase tax bases (rather than tax rates) so that rising tax revenues are available to finance improved public services. However, economic growth will be difficult to achieve as long as there is depressed demand for Scotland's exports caused by low-to-zero economic growth among its main trading partners, including England.

Put simply

- localism provides no easy route out of austerity;
- devolution has not made dealing with austerity any easier;
- this will remain the case irrespective of greater devolution or outright independence;
- reducing austerity seems only possible through high economic growth;
- but councils could make much better use of service charges to mitigate social risks;
- charges should be moderated by vouchers based on both ability to pay and need for service;
- so the Scottish public sector is stuck with austerity but could mitigate the social risks;
- the same charging powers exist elsewhere in the UK.

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