

# Report

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Report to:	<b>Finance and Information Technology Resources Committee</b>
Date of Meeting:	<b>22 November 2011</b>
Report by:	<b>Executive Director (Finance and Corporate Resources)</b>

Subject:	<b>Submission on 2011 Spending Review and 2012-2013 Scottish Budget</b>
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## 1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Advise of a response made to the Scottish Parliament's Local Government and Regeneration Committee calls for evidence from the Council on the Scottish Government's 2011 Spending Review and 2012-13 Budget.

## 2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation:-

- (1) That the submission to the Scottish Government's Local Government and Regeneration Committee, detailed in Appendix 1, be noted.

## 3. Background

3.1. As part of the scrutiny of the Scottish Government's annual draft budget, the subject committees of the Scottish Parliament scrutinise the areas of the draft budget which are relevant to their remit and report their findings to the Finance Committee. The Finance Committee then publishes a report on the draft budget, which is the subject of a parliamentary debate.

3.2 The Local Government and Regeneration Committee issued a call for evidence on the 22 September with a deadline of 21 October for submissions on the Spending Review as it relates to local authorities, and on the local government settlement for 2012-13 in particular.

3.3 The questions it asked fell into a number of categories – on the **2011 Spending Review**, it asked for the Council's views on how helpful the three-year settlement is for your planning and management of:-

- Your budgets over the next three years;
- The Community Planning Partnership strategy and its Single Outcome Agreement and, especially, how to evaluate achievements on outcomes; and
- Your relations with other public service providers, including private and third sector bodies.

3.4 On the issue of **Increasing demand on services**:-

- What projections have you made in terms of the increasing demand on your Council for services, including interaction with other public service providers?

3.5 In respect of **Public Sector reform**, it asked:-

- Have you already planned any changes to the ways in which you provide services and work with other public sector bodies? If so, please provide examples.
- Has your Council taken any steps to move from a resource-based distribution system to a system which is based on outcomes?

3.6 On **overall budget levels**, it asked:-

- How will the Draft Budget impact on your revenue income in 2012-13?
- What do you see as the longer-term implications of the three-year settlement, including the implications of continuing the freeze on council tax?

3.7 In respect of **reducing expenditure**, what plans does the Council have in relation to:-

- Prioritising specific services and ring fencing funding for them?
- Discontinuing services or financial provision to external providers for services?
- Achieving further efficiency savings in 2012-13?
- Introducing new or increasing existing charges for services?
- Further reducing staff budgets?
- Making savings in contracts and procurement?
- Outsourcing services?

3.8 It also asked for views on **capital spending**:-

- What impact has the reduction in capital spending had on your Council's ongoing capital investment plan?

3.9 It then sought answers to questions on the issue of **Equal Pay**:-

- Have you made provision for potential settlements of equal pay claims and, if so, what proportion of your budget is this likely to represent? How many cases are still outstanding?

3.10 Next, it asked for views on the issue of **Welfare Reform**:-

- Have you been able to quantify the additional burdens on your Council that will result from the UK Government's Welfare Reform Bill?
- Are there other areas of potential new legislation or regulation (European Union, UK Government or Scottish Government) that you think will add to the burdens on your Council?

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3.11 Finally, it asked:-

- Are there any **other issues** that you would like to draw to the attention of the Committee?

#### **4. Submission to Local Government and Regeneration Committee**

- 4.1. Appendix 1 shows the responses given to the Committee in response to these questions.

#### **5. Employee Implications**

- 5.1. There are no employee implications.

#### **6. Financial Implications**

- 6.1. There are no financial implications .

#### **7. Other Implications**

- 7.1. There are no other implications arising from the recommendations contained in the report in respect of risk or sustainability.

#### **8. Equality Impact Assessment and Consultation Arrangements**

- 8.1 This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and, therefore, no impact assessment is required.
- 8.2. There was also no requirement to undertake any consultation in terms of the information contained in this report.

**Paul Manning**

**Executive Director (Finance and Corporate Resources)**

1 November 2011

#### **Link(s) to Council Values/Improvement Themes/Objectives**

- Partnership working, community leadership and engagement; and
- Working with and respecting others.

#### **Previous References**

None

#### **List of Background Papers**

- Scottish Spending Review 2011
- Scottish Draft Budget 2012-2013

#### **Contact for Further Information**

If you would like to inspect the background papers or want further information, please contact:-

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## **APPENDIX 1:**

### **Spending Review**

The Council has always believed that the certainty of having a 3 year settlement is essential to both improve the planning of services as well as allowing for flexibility to enable service re-configuration and innovation.

The Council is aware of the challenging financial situation that the UK and Scottish Governments are facing and is under no illusion as to the consequences that this will have for council services. The Council has gone through a process of requiring services to review their plans and activities in respect of a range of possible spending scenarios against the Council's own corporate priorities and those of the South Lanarkshire Community Plan. The review outcomes were scored and ranked and a series of elected member forums held to consider the results of this exercise and determine which of the options to implement.

The overall funding settlement received by councils has been broadly in line with the scenarios the Council considered and as a consequence, it is looking at around £12m spending cuts on top of the cuts already agreed to.

The Council is concerned about a number of issues with the settlement:-

- (a) It is concerned over the decision by the Scottish Government to re-profile support for capital spending over the 2012-13 and 2013-14 periods, the expectation that councils will borrow to fill the gap, and the fact that the re-profiling will partially fall into the next Spending Review period which will increase uncertainty. It is estimated that this decision will see the Council's capital spending affected by around £7mn over the two year period and, if borrowed, would see the Council having an 'unplanned' £1mn call placed on the revenue budget to support the borrowing;
- (b) The Council is also concerned over the decision to have a flat, cash term allocation over the entire Spending Review period given that expectations of inflation over the Spending Review period are increasing;
- (c) The freezing of the Council Tax, with the subsequent re-imburement from the Scottish Government, will erode the financial position faced by councils by a further £70m each successive year in comparison to what the position would have been, had councils been able to increase Council Tax; and
- (d) The Council is concerned that the fiscal constraints may last well into the next Spending Review and perhaps the one after that. It is also concerned by the way in which negotiations for the current review have been handled by the Scottish Government. The Council believes that in challenging times it is important that frank discussions which strive for consensus are crucial to the delivery of public services.

In relation to the Community Planning Partnership Strategy and the Single Outcome Agreement, the settlement brings challenges but the main issue that the Partnership faces lies with the fact that many of the public sector partners do not have multi-year settlements and work to different budgetary cycles. With some partners, the budgetary decision process is carried out at a higher level and all that exists locally is an operational budget. A further key issue is that for certain partners, the focus is on achieving targets and outcomes set out with the community plan by the Scottish Government, for example, the HEAT targets. Both these factors can make coherent partnership planning and management almost

impossible. The Council shared the preliminary results of its budget decision making process with individual partners where there were possible implications for joint services.

The Council also produced and shared with the Partnership Board the approach it adopted for making budgetary decisions and the outcome of this process. This was presented on a National Outcomes basis to enable cross-referencing to the Single Outcome Agreement. However, it was the only partner to attempt to do this.

The South Lanarkshire Partnership has found that the Single Outcome Agreement has helped focus activity on outcomes, but recognises the process is still in its infancy, the latest SOA report is only the 3<sup>rd</sup> annual report, and outcomes of some interventions can take significantly longer to become apparent. It does seek to ensure that interventions focus on identifying changes in the pre-intervention conditions to that post-intervention, both in hard and soft terms, and where possible track the situation for periods after the intervention. However, such activity can be costly and can, for example, meet resistance from some individuals. It must also be recognised that even the Scottish Government still retains a focus on inputs in some areas to measure success.

The relationships between the Council and other public service providers remain strong. The Council provides funding for additional community police officers and has a Joint Problem Solving approach involving the partners to tackle community safety issues at a local level. In relation to NHS Lanarkshire, there are joint appointments and the community planning partnership for Health and Care has now merged with the joint Operating Management Committee of the South Lanarkshire Community Health Partnership, a sub-committee of the Board of NHS Lanarkshire. In respect of the third sector, this sector has always had two representatives on the Partnership Board since the days that community planning was piloted in South Lanarkshire. The Council has been actively involved in seeking to increase the capacity and capability of the third sector in South Lanarkshire. Research has shown that the sector is not as developed as elsewhere in Scotland. The establishment of the Third Sector Interface, VASLAN, has been a significant development. The South Lanarkshire Compact has been operating since September 2009 and VASLAN manages the Compact on behalf of the CPP and is tasked with ensuring that the Third Sector are engaged, involved and influence the community planning process and the future development of the Single Outcome Agreement. The Council has recently agreed additional funding to support the capacity of VASLAN to fulfil its role in developing the sector's capabilities.

### **Increasing demand for services**

The Council has been investing in its population forecasts and employment forecasting capabilities and the linking of these to long term financial planning to seek to improve overall long term planning procedures.

The Council shares the forecasts with community planning partners and is beginning to seek to look not just at changes in different population groups or household composition or at an area level within South Lanarkshire but also at issues like projected health characteristics of the population. This latter work is still at an early stage of development there are opportunities for taking this work forward on a collaborative way with partners. An issue that does arise is that many partners do not cover the whole of their operational area; therefore their ability to incorporate this work into their organisation's overall planning processes can be limited as they may not operate at a 'sub-area' level, such as South Lanarkshire.

What the work has shown is that, in population terms, South Lanarkshire's population is forecast to rise faster than in Scotland as a whole and to age faster, with a particular challenge in East Kilbride due to the nature of the development of the New Town and the

age profile of the population. It is also expected to see a rising number of pre-school and primary school population. The local economy is also forecast to perform less well than in Scotland as a whole and with a rising labour supply, this will present challenges.

## **Public sector reform**

In the refreshed Community Plan, formally adopted in 2011, the Council and partners introduced a new Aim; to promote opportunities throughout life for its residents. This highlights the particular need to provide support for people at critical transition phases in their lives. Four areas were identified; Early Years Intervention to improve life chances; activity based around the Getting It Right for Every Child agenda; targeted approaches aimed at specific adult groups; and support for people as they age. The aim is to develop activities and interventions to help people in ways that are simple, accessible, streamlined and make sense to them.

The Council believes that this shows the commitment of all South Lanarkshire community planning partners to the reform of public services which chimes with the findings of the Christie Commission and the Scottish Government's Renewing Scotland's Public Services. The Council welcomes the indication in the Scottish Budget of new funding for interventions in the areas of the Change Fund, the Early Years and Reducing Reoffending Funds as well as the Scottish Futures Fund.

Further information on how these funds will be allocated and focussed is awaited by the Council and advocates for the allocations to be based on the ability of the funding to aid the transformation of services, deliver early interventions and lead to improved outcomes. It is concerned that there are some indications that funding will be earmarked for specific sectors which may not have the capacity or geographical reach to impact on the groups concerned across Scotland.

The Council believes that an issue for concern is the use of the term 'preventative spend' and the fact that no agreed definition of this has been developed. The danger is that it becomes a label that is put on everything and so its usefulness becomes devalued. The Council's view is that preventative spending is primarily related to early intervention. It recognises that in dealing with the pressure on services from "negative outcomes" interventions can affect the path an individual is on which may reduce the demands on services in the future, but views this as more about reversing negative outcomes than preventative spending per se.

The Council has been moving in recent years from a resource based allocation service to one where the outputs, if not the outcomes, have been actively considered. Budgetary decisions have been made which reflect the priorities of the Council and service prioritisation discussions have ensured that the outputs/ outcomes of services are considered in these discussions. Discussions on the new Council Plan, presently being prepared, reflect a change in thinking away from the delivery of discrete projects towards a more holistic achievement basis.

## **Overall funding levels**

As stated above, the Government has sought to pass a 'flat cash' settlement to councils for 2012/13, in comparison to that provided in 2011/12. This, by its definition, contains no provision either for current, significant levels of inflation, or for increased demand for services. Increases in demand for Council services have been and are projected to continue to be, considerable, particularly in the area of care for older people. The Council is also facing challenges in delivering the targets sought by the Scottish Government in policy areas like Climate Change and the Zero Waste agenda. The impact of this on the Council's

budget will be a continuing need to deliver savings within the budget, over and above those achieved in 2011/12. The specific reason for the savings will be a requirement to meet these unfunded inflationary and demand pressures.

The fact that the funding for the continuation of the freezing of Council Tax, is to come from the 'flat cash' amount allocated to councils, cannot pass unremarked. This erodes the financial position faced by councils by a further £70m each successive year, in comparison to what the position would have been, had councils been able to increase Council Tax.

### **Reducing expenditure**

Over the past 18 months a different approach has been taken by the Council in identifying savings proposals. The authority has consciously avoided 'target percentage' approaches to savings, in favour of approaches weighted towards service and savings prioritisation. This has involved the commissioning of a cross-Council working group under the chair of an operational Director. Criteria considered included: need for the Council to deliver the service; Council priorities; and current unit costs of service delivery. The aim of this process was to ensure a balanced view of the Council's activities and of where savings should be directed, initially in preparation for financial year 2011/12.

This process has been continued into 2012/13, thereby providing the basis for a package of efficiencies for that year. Included in this process of identifying savings for years 2011/12 and 2012/13 were management and administration diagnostic projects, asset management and procurement.

The Council will continue to examine and challenge across all of these areas in an attempt to produce balanced budgets for the remaining years of the spending review period.

### **Capital spending**

The reductions in capital funding in the opening years of this spending review period, will, in common with all other councils, necessitate a re-working of our spending plans. If, as appears to be the Government's intention, the Council borrows to bridge the gap, this will have a near-immediate consequence in terms of our revenue budget, with extra financing costs incurred. The Council's ability to do this and incur the extra financing costs, will need to be weighed carefully against the expenditure constraints applying across all areas of the budget.

Initial indications were that any cuts in grant funding in the first 2 years of the settlement, would be compensated for in the third year. This would have allowed councils to redress the imbalance in their capital funding plans: extra borrowing required in years 1 and 2 could be compensated for by a reduction in year 3, allowed by the grant returned to councils. However, this has now changed, with the return of the amount taken from local government to extend into the first year of the new spending review period.

### **Equal Pay**

On 21 June 1999, the Scottish Joint Council for Local Government Employees agreed a new Scheme of Pay and Conditions for local government employees to replace the existing APT&C and Manual Schemes of Pay and Conditions of Service. The new Scheme, which is referred to as the "Red Book" came into effect 1 July 1999. Local authorities were to negotiate the details and implement the Single Status Agreement according to nationally set timescales.



South Lanarkshire Council took the view that Single Status was not just about the harmonisation of terms and conditions for APT&C and Manual workers , it was an opportunity to modernise work practices for the 21st century and the Council embraced the potential for change. With Single Status the Council took an even greater holistic approach and included policy development in such areas as diversity, equal opportunities and employee development.

In November 1999, South Lanarkshire Council agreed the principles under which it should progress the implementation of the National Single Status Agreement. The principles are as follows:-

- Customer centred services
- Co-operation
- Value for money
- Continuous Review
- Continuous Improvement
- Performance Management
- Recognition of Performance
- Equal Opportunities in Service Delivery
- Corporate Identity

With these principles being agreed with the Corporate Management Team, Elected Members and Trade Unions, they provided the foundation for what was to follow and the Council, working in partnership with Trade Unions, moved forward with a view to improving services, giving value for money and offering employees good terms and conditions along with development opportunities.

As part of this agreement, the Council committed to undertaking Equal Pay Reviews, in line with the EHRC toolkit, following completion of the job evaluation exercise, the first of which was 2005/06 with subsequent reviews in 2008/09 and 2011/12. Through the Competence Initiative Scheme and Performance and Development Review, the Council has developed a foundation for the fair and equal treatment of employees in terms of their employment and development. The Council continues to strive to ensure that employees, managers and Trades Union representatives are involved in and aware of these initiatives.

The Council currently has 2,187 equal pay claims from both current and ex-employees. These claims are being robustly defended at the Employment tribunal, with a conclusion to the Pre-Hearing Review expected by the end of the year.

## **Welfare reform and other legislation**

The UK Government's Welfare Reform Bill will have a huge impact on Local Authorities. The reforms are intended to change the benefits system to do more to make work pay and a crucial component of this is the introduction of the Universal Credit. It is intended that Universal Credit, which will incorporate the current Housing Benefit, will be administered by the Department for Work and Pensions and not Local Authorities. In South Lanarkshire we have around 150 employees who currently administer Housing and Council Tax Benefits and they will be directly affected by this change. We also currently receive around £2.6m towards the cost of providing this service.

It is also the policy intention that Universal Credit will be paid directly to the claimant and not, as is currently the case with Housing Benefit, to the Local Authority. This has huge implications for Local Authorities as at present in South Lanarkshire around £48m is paid out in Housing Benefit and credited directly to the tenants account. With Universal Credit it is envisaged that the vast majority of this will be paid directly to the claimant with reliance

then placed on them to pay their rent. This creates a significant risk of non payment leading to rent arrears, eviction and homelessness. It would also result in increased costs and reduced rental income for local authorities and have a significant impact on their housing and homelessness services including their ability to repair and maintain their housing stock. The Welfare Reform Bill also provides for the abolition of Council Tax Benefit (CTB) which is a national scheme. It is intended that 90% of the Council Tax Benefit spend will be devolved to the Scottish Government to be administered locally. South Lanarkshire residents currently receive around £25m in Council Tax Benefit which is credited directly into their council tax account. A 10% reduction would lead to significantly increased Council Tax arrears, increased costs of collection and a consequent reduction in income and therefore council funding.

The Council hopes that over the Spending Review period the Scottish Government give careful consideration of the financial impact of any new policy developments and would press for a commitment by the Scottish Government that if the costs on councils that are predicted are exceeded that it will consider compensating councils. It also hopes that the Scottish Government will take look at the cumulative burden that its policy decisions are placing on councils in these fiscally constrained times and not allow a 'silo' mentality to reduce its appreciation of the full impact of its proposals.

### **Other issues**

The Council has some concerns over the issues around the revenue projections from Non-domestic rate income. It notes the significant rise projected for this source of income for councils, driven by the new public health levy, expectations of inflation and economic expansion. With the cash settlement freeze, this source of revenue will be vital for councils and it is concerned over what happens if these projections are not achieved. Its own forecasts are for a weak recovery over the next 5 years, but even by 2021, it does not see employment at least returning to its 2006 levels.