

Report

Report to: **Executive Committee**
Date of Meeting: **24 August 2022**
Report by: **Chief Executive**

Subject: **South Lanarkshire Council Response to the Pre-Budget Scrutiny Call for Views**

1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ present the Council's response to the call for views issued by the Finance and Public Administration Committee of the Scottish Parliament as part of the pre-budget scrutiny process

2. Recommendation(s)

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

- (1) that the South Lanarkshire response to the call for views, attached at appendix 1, be approved; and
- (2) that any comments agreed by the Executive Committee be forwarded to the Scottish Parliament for consideration along with the response already provided.

3. Background

- 3.1. In recent years, in line with the recommendations of the Budget Process Review Group report, Scottish Parliament subject committees have undertaken pre-budget scrutiny, in advance of the publication of the Scottish budget.
- 3.2. The intention is that committees will use pre-budget reports to influence the formulation of spending proposals while they are still in development. In order to facilitate this, committees are required to publish pre-budget reports at least six weeks prior to the Scottish budget.
- 3.3. As part of its pre-budget scrutiny, the Finance and Public Administration Committee of the Scottish Parliament issued a call for views on 23 June 2022 on "Scotland's public finances in 2023/2024 and the impact of the cost of living and public service reform". Within this, the Committee has indicated that it is particularly interested in views on how the rising cost of living will impact on the Scottish budget in 2023/2024 and whether the Scottish Government's proposals for reforming public services will deliver the efficiencies expected.
- 3.4. This report presents the Council's input to this call for views for Committee approval.

4. The pre-budget scrutiny call for views

- 4.1. The focus of the Finance and Public Administration Committee is on the impact of the cost of living crisis and public service reform. The Committee notes that the context for the budget includes slower income tax growth in Scotland than the UK as a whole; as well as forecast errors which suggest a lower budget than previously anticipated.
- 4.2. With this context in mind, the Committee has asked for views on eight questions:-
1. The Scottish Government's Resource Spending Review assumes that the current taxation policies are maintained while funding for health and social care and social security is prioritised. Are these the right priorities and approach for the Scottish Budget 2023/2024 and until 2026/2027?
 2. The Scottish Fiscal Commission (SFC) notes that Scottish income taxes have grown more slowly than the rest of the UK and is forecasting Scottish taxes to be around £360 million less in 2023/2024 than they would be without income tax devolution. The SFC is also forecasting that, as a result of forecast error, the Scottish Budget in 2023/2024 could be £221 million lower. How should the Scottish Government's Budget 2023/2024 respond to this challenge?
 3. How should the Scottish Government respond to inflationary pressures and the cost of living crisis in its Budget 2023/2024?
 4. The Spending Review identifies key areas of reform over the lifetime of the Parliament to support its priorities in the Spending Review, including delivering efficiency savings across the public sector. How should the Scottish Government approach each of these areas to achieve efficiencies while also maintaining effective public services?
 5. How effective do you think these reforms will be in delivering efficiency savings in the Scottish Budget 2023/2024, and beyond? If you have additional or alternative priorities for achieving efficiencies (for example within your public sector area), please provide details.
 6. What impact will the Spending Review priorities have on the delivery of national outcomes in the National Performance Framework?
 7. How should the Scottish Government target spending in its budget to achieve net zero targets?
 8. How has the Scottish Government reflected its commitment to fiscal transparency in the Spending Review and how can it best ensure that spending in the Budget 2023/2024 can be properly identified and tracked?
- 4.3. The Council's response, attached in full at Appendix 1, emphasises throughout the unprecedented financial pressures faced by local government, and makes the point that any further reductions in budgets will have severe implications for councils' ability to deliver services. This will, in turn, hamper the ability of councils to support Scottish Government priorities and the achievement of national outcomes.
- 4.4. Ultimately the funding squeeze on local government means councils will not be able to contribute to the national priorities framework in the way intended; they won't be able to meet targets on poverty/child poverty; and there is the real prospect that

councils will fail to meet legislative obligations due to unprecedented budget pressures.

4.5. Within the Council's response, Committee is asked to note the following key points:-

- ◆ According to figures from Audit Scotland, funding for councils has reduced by 4.2% in real terms since 2013/2014, which contrasts with an increase of 4.3% in Scottish Government funding for other areas of the budget over the same period.
- ◆ Inflation is already having a significant and damaging impact on council services. With general inflation projected to rise above 10% in the coming months, and costs for particular items considerably in excess of that figure, pressures on local authority budgets will continue to increase.
- ◆ Our starting point in response to this would be that the impact of the significant, extraordinary effect of inflation should be recognised in funding settlements for local government. This should extend to include the impact on pay awards for our workforces. Flat cash settlements give no ability to invest in the workforce in response to high inflation levels.
- ◆ Local authorities have a pivotal role in delivering the national outcomes, especially those which are strongly influenced by how people experience their local areas, communities and sense of agency and empowerment. The squeeze on Council funding will impact on councils' ability to support these outcomes.
- ◆ Councils are key to addressing the cost-of-living crisis more generally, and in particular, how it affects our residents. We provide assistance and support across our areas to those who are struggling to meet the costs of living – money advice, support into employment, backing for the Living Wage, the Council Tax Reduction scheme and in many other ways. Financial settlements should recognise this key role.
- ◆ There are a number of areas of spend within council budgets which are subject to preservation as a result of direction from the Scottish Government, which restricts the opportunity for local flexibility reflecting the actual circumstances affecting councils. Councils are looking for flexibility across all of their budgets to allow them the opportunity to make decisions locally to achieve the wide outcomes.

4.6. As noted above, the Parliamentary Committee has issued its call for views as part of the normal pre-budget scrutiny process. Other subject Committees have also initiated consultations, each with a focus relevant to their specific concerns:-

- ◆ Health, Social Care and Sport Committee – focusing on health and social care sustainability; preventative spend; and health and social care outcomes.
- ◆ COVID-19 Recovery Committee – focusing on how the Scottish Government plans to fund the COVID Recovery Strategy and the ongoing costs associated with the pandemic that are outlined in the Strategic Framework.
- ◆ Constitution, Europe, External Affairs and Culture Committee – focusing on how are budgetary decisions supporting the recovery of the culture sector from COVID and what should be the Scottish Government's priorities in supporting recovery through Budget 2023/2024.

4.7. The date of the Scottish budget has not yet been confirmed, as it will depend on the timing of the UK budget (which has not yet been announced). The Scottish budget is normally in December, following an Autumn UK budget, although timings have been different in recent years due to the timing of UK elections and the pandemic. For now, the working assumption is that pre-budget reports will be required to be published by the end of October.

5. Next steps

- 5.1. The deadline for the call for views is 19 August 2022. In order to meet this deadline, Council officers have submitted the draft response pending today's discussion by Elected Members. If approved by Committee, the Council will confirm the submission as its response and will incorporate any comments agreed by the Committee.

6. Employee Implications

- 6.1. There are significant potential implications for staff across the Council as a consequence of decisions made about how to support the Scottish Government's priorities through the budget 2023/2024.

7. Financial Implications

- 7.1. There are significant potential financial implications for the Council arising from decisions taken in relation to the Scottish Budget 2023/2024. The response prepared by the Council underlines the scale and significance of the financial challenges facing local government.

8. Climate Change, Sustainability and Environmental Implications

- 8.1. There are no direct climate change, sustainability and natural environment implications arising from this report.

9. Other Implications

- 9.1. Considering the detail of the report and identifying actions as appropriate contribute towards effective risk management. There are very significant risks to local government arising from the decisions taken in the Scottish Budget 2023/2024.

10. Equality Impact Assessment and Consultation Arrangements

- 10.1. 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.
- 10.2. Consultation was undertaken internally on the contents of this report.

Cleland Sneddon
Chief Executive

16 August 2022

Link(s) to Council Values/Priorities/Outcomes

- ◆ Accountable, effective, efficient and transparent

Previous References

- ◆ None

List of Background Papers

- ◆ None

Contact for Further Information

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

Tom Little, Head of Communications and Strategy

Ext: 4904 (Tel: 01698.454904)

E-mail: Tom.Little@southlanarkshire.gov.uk

<p>1. The Scottish Government's Resource Spending Review assumes that the current taxation policies are maintained while funding for health and social care and social security is prioritised. Are these the right priorities and approach for the Scottish Budget 2023-24 and until 2026-27?</p>	<p>It is acknowledged that health and social care and social security are considered priorities as we come out of the pandemic and into a cost-of-living crisis.</p> <p>However, the outcome of prioritising these areas means that other areas of public spending that are considered unprotected, including local government, face real cuts in funding.</p> <p>In March 2022 Audit Scotland concluded that, once specific Covid funding was removed from any calculations, "councils have seen funding reduce, in real terms, by 4.2% since 2013-14, with increasing amounts of funding ring-fenced to meet Scottish Government priorities." Figures received from Audit Scotland indicated that, when funding for Scottish Government priorities is removed, the real terms cut to local government core budgets is over 9.6%. That ultimately means that councils will have to face decisions around the services they provide, like education, waste collection and work on public protection, such as against anti-social behaviour.</p> <p>In short, ringfencing and prioritising of certain areas comes at the cost of reducing other budgets. This is a significant factor in the budget gaps that councils are facing across Scotland – on 15 June 2022 elected members at South Lanarkshire Council were advised that the budget gap we face in our 2023-24 revenue budget stood at £37.541 million before any solutions are identified and applied. The solutions and savings that will require to be found in order to bridge such gaps, across Scotland, will mean tough decisions regarding the sustainability of key services that citizens depend on, especially the vulnerable.</p>
<p>2. The Scottish Fiscal Commission (SFC) notes that Scottish income taxes have grown more slowly than the rest of the UK and is forecasting Scottish taxes to be around £360 million less in 2023-24 than they would be without income tax devolution. The SFC is also forecasting that, as a result of forecast error,</p>	<p>Matters of income taxation, and the rates and bands that apply, are for the Scottish Government to consider as they manage their budget. This also applies to how the potential shortfall of £581 million for 2023-24 is managed.</p> <p>We note that in their Local Government in Scotland Overview 2022 (published May 2022) Audit Scotland noted that the 4.2% reduction in Scottish Government funding for councils since 2013-14 contrasted "to an increase of 4.3 per cent in Scottish Government funding of other areas of the budget over the same period".</p>

<p>the Scottish Budget in 2023-24 could be £221 million lower. How should the Scottish Government's Budget 2023-24 respond to this challenge?</p>	<p>In local government, year on year we have faced challenges to balance budgets, with increasing costs that have not been matched with increasing settlements. That work has included an ongoing focus on finding ever more efficiencies, and ultimately having to make decisions around what can and can't be afforded in terms of service delivery.</p> <p>The Scottish Government has longer-term budget planning that should allow them to be able to consider the impacts of any budget changes over the medium term. For local government there would be an obvious benefit if there was a move to multi-year settlements, which would allow a longer-term planning approach.</p>
<p>3. How should the Scottish Government respond to inflationary pressures and the cost of living crisis in its Budget 2023-24?</p>	<p>Inflation is already having a significant and damaging impact on council services. Inflation hits across our own delivered services, services we commission and on our day to day running costs in similar ways to the impacts that our residents are feeling in their own pockets (utilities, food, materials etc). Inflation also impacts on our capital programmes – like all sectors, we have seen large increases in the costs of materials. Unlike the private sector, of course, we do not have the option of passing those costs on directly to the customer.</p> <p>With general inflation projected to rise above 10% in the coming months, and costs for particular items considerably in excess of that figure, we anticipate pressures on local authority budgets to increase.</p> <p>Our starting point in response to this would be that the impact of the significant, extraordinary effect of inflation should be recognised in funding settlements for local government. This should extend to include the impact on pay awards for our workforces. Flat cash settlements give no ability to invest in the workforce in response to the high inflation levels. Local authority employees have taken the brunt of pay restraint since the financial downturn in 2008 with salaries reduced by over 22% in real terms.</p> <p>Local authorities are also key to addressing the cost-of-living crisis more generally, and in particular how it affects our residents. We provide assistance and support across our areas to those who are struggling to meet the costs of living – money advice, support into employment, backing for the Living Wage, the Council Tax Reduction scheme and in many other ways.</p> <p>Without the recognition of that key role in financial settlements many of these services will be more</p>

	<p>difficult to deliver. As well as local government services having to be cut, potentially resulting in significant job losses, there will be a reduction in essential services for the public at a time when some people will need them most.</p>
<p>4. The Spending Review identifies key areas of reform over the lifetime of the Parliament to support its priorities in the Spending Review, including delivering efficiency savings across the public sector. How should the Scottish Government approach each of these areas to achieve efficiencies while also maintaining effective public services?</p> <p>a) Digitalisation</p>	<p>For the past six years councils have been working together to accelerate Digital Transformation, thereby delivering service improvements and efficiencies. All Scottish local authorities participate in the Local Government Digital Office and benefits have been realised in delivering Once For Scotland solutions rather than re-inventing the wheel 32 times.</p> <p>Particular benefits have been realised in the areas of cyber security and Microsoft 365 rollout, both of critical importance to support agile working during the pandemic.</p> <p>The common platforms initiative has the potential to deliver returns more quickly.</p> <p>Encouraging and incentivising councils to adopt standard solutions saves money in several ways:</p> <ul style="list-style-type: none"> - Lower procurement and ongoing support costs - Negotiate better pricing due to increased volumes - Share best practice between councils - Redesign processes to be more efficient - Less need for costly custom developments - Faster, less risky implementations - Adopt new technology faster (eg Cloud) <p>The Scottish Government should look at ways whereby councils can be encouraged to move to standard solutions, perhaps by assisting with project/implementation costs where this is a barrier. This initiative will also help remove legacy systems which may be a cyber risk.</p> <p>In addition, the Scottish Government could consider how best to exploit data by building a standard data platform which can be securely used by councils to:</p> <ul style="list-style-type: none"> - Cleanse data to improve quality - Enrich data by joining datasets - Generate dashboards and standard data returns - Provide high quality management reporting <p>This capability, which councils are unlikely to develop in isolation in the short term, would enable senior managers with insight to and insight to both improve services and identify future efficiencies</p>

<p>b) Maximising revenue through public sector innovation</p>	<p>Councils have had many years of having to look at more efficient practices. There has been a move towards councils looking to maximise revenue in more creative ways and in more commercial manners that will allow continued financial support for core budgets. As budgets become tighter, the need to explore these options becomes more pressing</p> <p>Areas that have been, or are being, considered include expanding charging for services, full cost recovery and working in partnership with private partners to bring in investment, such as electric vehicle charging and energy production/management.</p>
<p>c) Reform of the public sector estate</p>	<p>Through the Heat Networks Act and Scottish Government's Heat in Buildings Strategy, the public sector estate is identified as an opportunity to progress and pilot decarbonised heating and energy efficiency technologies and methods. These approaches will result in increased spending required to meet new standards or guidance and as such may conflict with any suggested review or decrease of spend in this area.</p> <p>Within its response to the Scottish Government's Heat in Buildings Strategy Consultation in April 2021, South Lanarkshire Council highlighted the need to consider adequate levels of support and funding were made available to local authorities and the wider public sector to meet the challenges associated with the decarbonisation of both domestic and non-domestic buildings they own or operate. This includes both capital and revenue funding.</p> <p>The scale and nature of such projects will require funding across several financial years, therefore it is important that key areas of expenditure can be funded on more than an annual basis. A continued and stable investment programme can encourage innovation, collaboration and drive efficiencies.</p>
<p>d) Reform of the public sector landscape</p>	<p>The most significant reform of the public body landscape planned over the lifetime of the current parliament is the proposed creation of a National Care Service (NCS). Our concerns around this development are wide-ranging and were set out at length in our response to the NCS consultation.</p> <p>Looking specifically at efficiencies, we would reiterate our view that structural change is not necessary to achieve the outcomes articulated in the review of adult social care: the same results could be achieved more quickly, and at lower cost, with targeted investment and appropriate reform within existing structures.</p>

	<p>Crucially, there is a risk that shifting services into the NCS would fundamentally undermine the ethos of whole system, place-based, person-centred working. It would move away from the key principle that local systems, services and workforces are best placed to identify the specific needs of people and communities in their local authority area and to ensure that workforces have the knowledge, skills and resources to respond to these needs.</p> <p>These factors would, in our view, weigh heavily in the balance against any straightforward efficiencies that the NCS might realise.</p> <p>We remain concerned that there has been no detailed assessment of the risks associated with the creation of an NCS and the transfer of accountabilities, resources and staff from local government.</p>
e) Improving public procurement	<p>With eight years having passed since the last Procurement Reform Act in 2014, the Scottish Government should consider the scope for further reform to procurement legislation. At a UK level, reform is being driven by EU Exit and the view that procurement reform can move away from the rules-based approach driven by the single market, but consideration needs to be given to how this can be achieved in Scotland, while maintaining the principles of fairness and transparency and ensuring that public sector procurement is aligned to National Outcomes. In respect of public procurement structural reform, we note the commitment in the Spending Review to increase cross sectoral consolidated procurement and agree that there is scope to consider the roles of Centres of Expertise more widely across the public sector to maximise value from public spending.</p>
5. How effective do you think these reforms will be in delivering efficiency savings in the Scottish Budget 2023-24, and beyond? If you have additional or alternative priorities for achieving efficiencies (for example within your public sector area), please provide details.	<p>Local government have been delivering efficiencies for over a decade due to financial settlements being insufficient to cover costs. Measures include all of the areas listed above. So we are not starting from a position where there are still significant further efficiencies to be had in these areas. Other areas that we have looked to include rationalising management and supervisory structures, spend to save proposals, better use of technology, modernising of services /systems, as well as having to consider how and what we do.</p> <p>For digitalisation, the biggest saving opportunity is in robustly encouraging the use of common platforms across councils. For example, the recent widespread adoption of Microsoft 365 is enabling efficient</p>

collaboration between councils and with the NHS.

Standard solutions eliminate duplication, costly customisation and enable faster redesign and transformation of business processes by leveraging developments and best practice from other councils

In terms of the public sector estate, consideration should be given to the actions, efficiencies and modernisation efforts that have already been progressed by local authorities and other organisations in relation to the public sector estate to reduce costs associated and ensure it meets current service requirements.

The Public Sector approach to Asset Management delivers continuous review of assets, and in the post-Covid service environment there will require to be changes in the location, design and scale of the public estate to meet changing service need. While this process can generate capital receipts and revenue savings over the medium to long-term, investment is required in building fabric, digital connectivity and service redesign in order to effectively implement initial re-configuration, particularly where co-location is proposed. Given the current pressures on the construction industry the delivery of additional short-term benefits for 2023-24 would appear unlikely as proposals would require to be already underway.

It may instead be worth considering how previously suggested revisions to private finance models and supplier frameworks can be progressed to aid local authorities in meeting the future challenges associated with building management. Where these revisions represent a repackaging of existing council spend, this should not be viewed as a substitute for additional, substantive funding.

In terms of public procurement, the Scottish Government will need to recognise current market conditions and the expected medium to long-term impacts of inflationary pressures, which are expected to last through the parliamentary term, in driving efficiencies through procurement. The impact of added value in procurement, including the sustainable procurement duty and guidance on Climate, Fair Work First, Living Wage and local agendas in respect of Community Wealth Building will need to be balanced against achievement of efficiencies. The introduction of the National Care Service is expected to have a significant impact on Social Care commissioning arrangements across Scotland for both local authorities and the Centre of

Excellence.

Looking at the public body landscape, we also believe the proposal to create an all-embracing National Care Service with constituent Community Health and Social Care Boards (CHSCBs) will be a costly, disruptive, and potentially ineffective reform which will take time, energy and resource away from addressing core problems. The NCS project overlooks the role of contextual factors such as chronic underfunding, socio-economic challenges, and fragmentation across the wider public health and social care system, in determining the outcomes that care service users experience. It introduces a level of risk that has not been fully assessed or mitigated.

We have further concerns in relation to the costings and we question how much can be achieved with the limited monies available. To date no information has been provided on modelling of volume or costs of demand for the NCS, nor how the additional investment will be funded on a recurring basis. The Independent Review of Adult Social Care report suggested an indicative £0.66bn requirement per annum but is acknowledged as not covering all elements of the 53 recommendations and is based on a rudimentary uprating of historic service volume data as a proxy for the costs of unmet need. COSLA has suggested a figure well in excess of £1.2bn per annum, albeit with a clear acknowledgment that considerable detailed work will be needed to confirm the adequacy of this sum and what level of entitlements would be needed. The potential investment is not only a game changer but a necessity - the Fraser of Allander Institute recently commented "an underfunded national care service is unlikely to be any better than the system it seeks to replace". Our argument is that if sufficient funding is available, a structural change is unnecessary.

Finally, we would argue that much of the detailed work still requires to be done to understand the implications and practical impacts of the creation of the NCS. This work includes the design of the new care entitlements and support models; access arrangements; the financial framework that will support the new investment and a range of other fundamental assessments. To take a decision on the scale of structural change before these fundamental developments relating to function are completed and the full implications are understood is premature and presents significant risk to all stakeholders.

We would argue that an important part of these considerations would be developing an

	<p>understanding of the impact on councils of such a major change in the public sector landscape; removing such a large part of the work of councils from them would inevitably have serious consequences on how they manage their finances and balance their workforces. It would be a serious omission if the likely future shape and function of councils was not modelled before a decision was taken to remove their health and social care responsibilities.</p>
<p>6. What impact will the Spending Review priorities have on the delivery of national outcomes in the National Performance Framework?</p>	<p>The spending review rightly states that “local authorities play a vital role in delivering public services and are key partners in the delivery of the priorities set out by the spending review” (p.27). More broadly, local authorities have a significant role to play in helping to deliver the national outcomes overall.</p> <p>The flat cash commitment to local government will, in the current context, lead to pressure on many services, and this in turn will impact on local government’s ability to deploy resources that support the national outcomes.</p> <p>The national outcomes that might be most affected are those that are strongly influenced by how people experience their local areas, communities and sense of agency and empowerment. These include:</p> <ul style="list-style-type: none"> • people grow up loved, safe and respected so that they realise their full potential • people live in communities that are inclusive, empowered, resilient and safe • people value, enjoy, protect and enhance their environment • people have thriving and innovative businesses, with quality jobs and fair work for everyone • people are healthy and active • people tackle poverty by sharing opportunities, wealth and power more equally
<p>7. How should the Scottish Government target spending in its budget to achieve net zero targets?</p>	<p>Within its response to the Scottish Government’s Heat in Building Strategy and discussions with the Scottish Government on the implementation of Local Heat and Energy Efficiency Strategies, South Lanarkshire Council suggested that public funding should be prioritised for those ‘least able to pay’ for any proposed actions to achieve net zero and highlighted that owner contributions are the most significant barrier to building owners accessing current funding streams.</p>

	<p>Given the complexities of bringing forward Local Heat and Energy Efficiency Networks the council suggests directing investment toward the considerable cost of decarbonisation of core public sector assets would deliver more immediate benefits.</p> <p>The council also highlighted the lack of financial support identified for the social housing sector in the investment plans and outlined the risk this would have on low-income households, including social housing tenants, in relation to fuel poverty and the costs of living. The continuing disparity in grant subsidy between local authorities and RSLs is unacceptable and does not represent Best Value.</p> <p>Consideration should be given to agreeing long term funding models to provide confidence to building owners, suppliers and consumers to help achieve the net zero targets. In addition, continuing and increased <u>multi-year</u> capital investment for (1) EV charging infrastructure both for public and fleet charging hubs, (2) Low Carbon fleet transition and (3) walking and cycling infrastructure.</p>
<p>8. How has the Scottish Government reflected its commitment to fiscal transparency in the Spending Review and how can it best ensure that spending in the Budget 2023-24 can be properly identified and tracked?</p>	<p>To achieve transparency a move towards a more collaborative approach to budget setting would be welcomed.</p> <p>There have been calls to reduce the level of ring-fenced small pots of money, and a move towards more ability to make local decisions to achieve wider outcomes and this approach would be welcomed, rather than looking to ensure “tracking” of the spending review proposals.</p> <p>There are a number of areas of spend within council budgets which are subject to preservation as a result of instruction from Scottish Government, such as a requirement to maintain teacher numbers for example, or maintain contributions towards Health and social care partnerships. This restricts the opportunity for local flexibility reflecting the actual circumstances affecting councils. Councils are looking for flexibility across all of their budgets to allow them the opportunity to make decisions locally to achieve the wide outcomes.</p>