Local Government Settlement 2012-15

1. COSLA welcomes the opportunity to provide evidence to the Local Government Committee on the 2012-15 local government budget. This submission focuses on the areas that the Committee has highlighted as being key issues for their consideration, such as preventative spend. It is intended that the written submission, in conjunction with the oral evidence which COSLA will provide, sets out COSLA’s position on the budget but should the Committee require further information COSLA will be happy to provide this where it can.

Revenue Settlement

2. Local Government recognises the wider financial environment and the challenges on the whole of the public sector. As such COSLA has agreed, in principle, to support the local government settlement as set out by the Government. It will then be for individual authorities to take decisions locally on how to set their budgets in February.

3. In revenue terms the local government settlement includes flat cash for each of the three years of the spending review. It is important for the Committee to recognise however that this will not always translate to flat cash at a local level. In addition to this, local government has been asked to deliver on a number of commitments which specifically include:

   - A three year council tax freeze;
   - Maintaining teacher numbers in line with pupil numbers and securing places for all probationer teachers; and
   - Passing on funding to police boards in line with the existing agreed level for 2011-12 as a contribution to maintaining the number of police officers through the spending review period.

4. As stated COSLA has agreed to accept the settlement but, like the whole of the public sector, this will be challenging due to rising inflation and demand for services. In terms of council tax, in the past an additional £70m has been made available for local government to freeze the council tax. The 2012-15 spending review settlement does not however include any additional resources to freeze the council tax. A second issue relating to council tax is that the Scottish government has received consequentials in the order of £67.5m as a result of the UK Government awarding additional funding of £805m to English Councils to freeze their council tax. COSLA acknowledges that this money comes unhypothecated to Scotland but will make a strong case to the Scottish Government that this money should be made available to local government to support the council tax freeze in Scotland. The Committee will be aware that the Government has made a commitment to pass on any UK health consequentials to health and therefore local government will be asking the Scottish Government for similar treatment.
Capital settlement
5. The Local Government capital budget has been reduced by 8% over the three year spending review period (2012/13 to 2014/15). In addition to this local government’s capital funding has been reprofiled over a 4 year period (1 year further than the spending review) on the following basis: -£120m, -£100m, +£120m, +£100m.

6. Whilst recognising the overall reduction in capital funding at a national level, the reduction in local government funding, coupled with the reprofiling will impact on local government’s ability to deliver on capital programmes and local capital plans will need to be considered in light of this. Local Government recognises the importance of capital investment to stimulate the economy however this can only be done on an affordable basis. Local Government does have the capacity to borrow in line with the Prudential Code but crucially this requires a revenue stream to support the borrowing costs. As highlighted above the revenue budget is also under pressure and therefore local authorities will need to take decisions in line with their priorities at a local level.

Financial Modelling
7. As highlighted above the financial settlement will present continued challenges to local government and COSLA believes that this is largely due to the increasing demand for local government services. In preparation for Spending Review 2010 local government officials in conjunction with Scottish Government officials developed a funding model to identify the financial pressures and potential funding gap up until 2016-17 based on anticipated reduction in resources. The model was based on the following assumptions:
   - Local government services will continue to be delivered as at present;
   - The future costs of present service delivery will be met; and
   - Funding will be constrained by the current economic climate.

8. The purpose of the model was to provide a basis for discussions about the challenges facing local government over the next two settlement periods and the policy decisions that must be considered to meet these challenges. The financial model which was undertaken to inform the 2011/12 financial settlement indicated a funding gap in cash terms of around £3.8bn by 2016/17. The model identified that just over half of the gap was created by demand for services, particularly around older peoples’ care and children’s services. In recognition of this increasing pressure and the significant size of the funding gap, COSLA stressed the need for a policy review to look at how these trends could be reversed. As part of its evidence to the 2010 Independent Review of the Budget and the 2011 Christie Review COSLA provided details of the financial modelling to support the need for a policy review.

9. Local Government officials have updated the financial model using 2011-12 as the base year. This reflects the agreed pay freezes for local government staff and teachers and the council tax freeze. The updated funding gap by 2016-17 is now estimated to be £3.7bn. Similar to the previous model, whilst much of this pressure is being driven by the reduction in the financial settlement, a large proportion of this is continued to be driven by the increasing demand which is being placed on local government services.
**Independent Review of the Budget**

10. In COSLA’s submission to the 2010 Independent Review of the Budget chaired by Crawford Beveridge a number of issues were raised that remain relevant to the current consideration of the budget. The submission covered in more detail the financial modelling work referred to above and specifically raised issues relating to the need for a review of policy and a debate on how we deliver services. Specifically the submission raised questions relating to a model for early intervention; the appropriateness of universality and the need to discuss co-production of services. A copy of COSLA’s submission to the Independent Review of the Budget can be found at appendix 1.

**Public Sector Reform**

11. COSLA remains of the view that a full and proper debate needs to be undertaken to address the challenges ahead. This requires the reform agenda to focus on outcomes and direct resources where they will be most effective. Overall COSLA believes that the focus of reviewing policies and funding within the reform agenda needs to be guided by a set of principles and COSLA in its evidence to the Christie Commission set out its views on the focus for future spend and public sector reform. In summary COSLA’s evidence to Christie concluded that:

- Public Services need to be focused on the improvement of outcomes – to plan for outcomes, to budget for outcomes and to be accountable for outcomes;
- An outcomes approach demands integrated local delivery and funding arrangements, which are accountable to a local democratic body – this should be the default position with alternatives being considered only where the co-ordination or discharge of duties is impossible or less efficient at a local level;
- Local democratic accountability for locally-delivered services needs to be strengthened and tax raising responsibilities increased;
- Public services need to be responsive to local needs, to be enabling and to build on local assets in order to maximise citizen engagement and empowerment;
- Public policy needs to be refocused towards early intervention and prevention and away from its current universalist assumptions;
- The statute needs to be consolidated in two directions: public bodies should be given more powers and less duties; and the citizens of Scotland should be given a clearer description of their rights, entitlements and responsibilities.

**Preventative Spend and Change funds**

12. COSLA is aware that a key focus for the Committee is preventative spend and how the 2012-15 budget promotes this. COSLA welcomes this scrutiny by the Committee and COSLA firmly believes that there needs to be a redirection of resources from acute to preventative spend. There is stakeholder wide agreement that early intervention rather than reactive care and crisis intervention is the best approach however COSLA has always stressed that there needs to be a real debate about how we start redirecting resources to early intervention practices. The 2010 spending review saw that creation of an adult social care change fund and this has been built upon in spending review 2011 with increased resources being attributed to the changes funds and the creation of an early years change fund. COSLA believe that in order for the change funds to meet their objectives all partners in government need to ensure that the focus is on redirecting total resource and not just about spending pots money on initiatives that will stop when the change funds end. The
change funds must engender a refocus on how we spend resources from acute to preventative spend. It is only then will we see a reversal to the increasing trend in the demand for intervention type services.

13. The health and social care fund is relatively advanced given that it has already been operating successfully for a year; however work on the early years fund is not as developed. The early years fund is going to be a more difficult one to develop due to the complexities around driving change and assessing outcomes over a longer timeframe. In terms of operation, COSLA believes that there needs to be a commonality across the two funds and there needs to be a set of basic principles that govern the funds. COSLA will continue to work with Government to develop these principles. As part of the settlement agreement Local Government is also being asked to contribute to the change funds from within the financial settlement. In line with developing the above principles to apply to the funds COSLA will also continue discussions with Government over local government’s contribution. As part of these discussions to date COSLA has made it clear to Government that the role of Community Planning Partnerships needs to be strengthened if we are truly going to bring partners together to refocus spend.

14. Whilst the change fund approach is to be welcomed COSLA believes that this is only the first stage. As highlighted above COSLA would like to see a debate on how services are provided based on a set of principles as highlighted in COSLA’s submission to the Christie Review.

Non-Domestic Rates Income (NDRI)

15. A number of questions have been raised on the figures included in the Scottish Budget for Non Domestic Rates Income over the Spending Review period and whether the risk of any shortfall would impact on the Local Government Settlement. Our clear understanding from Scottish Government is that the risk of any shortfall resides with the Government and that any under-estimate of income by them will be compensated by a matching increase in Revenue Support Grant to Councils.

16. Questions have also been raised over what would appear to be an increased reliance on Non Domestic Rates within the overall Scottish Budget, with the level of NDRI being estimated to grow by £493m by 2014-15, and, whilst the Scottish Government is giving assurances on the Local Government’s Settlement, the argument runs that there is only a finite resource available in total and any under-recovery has to be found somewhere within the Scottish Budget. Again our understanding is that this will not impact on the Local Government Settlement and that the Government will absorb this risk out with Local Government’s allocation. The Scottish Government has also clarified to us the reasons for the increase which include inflation assumptions, the Public Health levy, changes to the empty property relief regime and the Government’s estimates of economic activity and the outcomes of appeals from the last Revaluation.
Further Challenges

17. In setting their budgets councils will have a number of local pressures to balance. However over the coming spending review period local government is aware of additional potential pressures that councils could have to deal with. These issues relate to welfare and pension reforms that are taking place at a UK level. Whilst continuing to lobby at a UK level, COSLA will work with the Scottish Government to mitigate any negative impact and additional costs these reforms could have on local government.

Welfare reform

18. COSLA has welcomed the need to reform the welfare system as at present it is overly complex and difficult for recipients to understand. However COSLA is very concerned about the lack of detail in the UK Welfare Reform Bill and the speed in which the reforms are to be implemented. The move to Universal Credit will have a number of implications for local government in terms of both: its operation as a business, direct payments being a major concern for local authorities; and the impact it will have on local government communities and the potential increase in the demand for services this will create.

19. In addition to the creation of a Universal Credit, the Welfare Reform Bill will abolish Council Tax Benefit. Discussions are still taking place as to what will be created in its place in Scotland but what is clear is that the money coming to Scotland will be reduced by 10% resulting in a reduction of funding approximating £40m per annum. In addition the subsidy that local government receives for administering both housing and council tax benefit will be revised and it is unclear what, if any, subsidy local government will receive going forward.

20. There are a number of big question marks over the reforms to the welfare system. Local government is very alive to these but it does pose a huge challenge in terms of operational and financial planning over the coming years. COSLA is providing the Committee with separate written evidence on welfare reform and is giving oral evidence on 9th November.

Pensions

21. Whilst pension reforms continue to be debated at a macro level the Committee may be aware that there may be financial impact due to a potential end to the current contracting out arrangements within defined benefit pension schemes. Whilst defined benefit schemes are not specific to the public sector, all public sector pensions schemes currently operate defined benefit pension schemes, and as such, any end to the current ‘contracting out’ arrangements will have a significant financial impact on the public sector in terms of increased National Insurance contribution rates for both employers and employees. For Scottish Local Government this could amount to as much as £100m per annum.

22. To date, we still are not aware what position will be adopted on this proposal, however indications are that the UK Government is likely to be pressing ahead with the end to current contracting out arrangements within defined benefit schemes, and indeed indications around the potential timescales for this may be ahead of any potential future of public sector pension reform. Clearly given the overall pressures facing council budgets, as well as meeting increased demand, any potential impact which is as significant as the potential changes to ending the current contracting out
arrangements will be significant both from an employer’s perspective as well as from individuals.

23. In addition to the above, the UK Government is continuing to push ahead with both their proposal to increase employee pension contribution rates across public sector pension schemes and the reform of public sector pensions. Whilst the Scottish Government has made it clear that they do not support the UK Government’s course of action in relation to proposed increases in employee contribution rates, and indeed no discussions have yet been had as to whether there will be any scheme reform going forward, given the financial implications on the overall Scottish settlement, they have indicated that should the UK Government not change its overall direction on this, they would reluctantly have to apply this increase across the unfunded public sector pension schemes in Scotland (including Teachers, Police, Fire and NHS). Whilst this may not have any immediate direct impact on the current contribution rates which are paid by employers, clearly this course of action will place particular pressure on individual scheme members, particularly at a time of public sector pay freeze, and increasing pressure on individuals finances, and this may have ongoing implications for the overall affordability of the schemes should these changes result in a substantial increase in scheme opt out rates.

Local Government workforce

24. With over 60% of all local government budgets spent on their staff, local government employers know that only a properly motivated, skilled and rewarded workforce can deliver the best possible services to communities across Scotland. In the last two years, the focus of that activity has been to secure affordable and sustainable employment through responsible management of the paybill and associated terms and conditions, including a two year pay freeze covering 2011/12 and 2012/13. Most councils have also reduced staff levels through recruitment freezes and / or voluntary early release schemes.

25. Much has been achieved, resulting in a reduction of the resource gap projected by COSLA’s financial model, and largely negating the need for compulsory redundancies to date. Nevertheless, the period ahead will present a range of pressures for the Scottish local government workforce including:

- An ongoing need to achieve savings from the paybill in order to protect vital jobs and services;
- The UK government’s pension reform agenda, including potential contribution increases for some schemes;
- The central role of the workforce in enabling local government’s public service reform objectives, with attendant industrial relations issues;
- Achieving an appropriate balance between recruitment freezes or voluntary early release and the desire to minimise compulsory redundancies and increase job security;
- Building on opportunities to improve partnership working, and to ensure that workforce planning and skills development meets projected demand for local government services.
26. These pressures are being felt at a time when inflation continues to increase and take home pay is being eroded. Local government will seek to resolve these issues proportionately, addressing the needs of councils, but in a manner that is considerate of and sensitive to the impact that the economic crisis has had on individuals and the workforce in general. Indeed, at a time of reduced resources, and the difficult period for industrial relations that this precipitates, we recognise that it is important to ensure that short term cost drivers do not replace more strategic and longer term workforce aspirations such as those set out in the Christie Report. The challenge is therefore not simply to ensure that the workforce is effectively and fairly managed, rewarded and motivated, but more importantly, it is to place workforce at the heart of the local government reform agenda.

**Efficiencies and shared services**

27. Local Government is ahead of the game when it comes to tackling efficiency and has consistently exceeded targets. Local Government has prioritised this area but that does mean the capacity for making future efficiencies is reducing. Efficiency targets are set for the Local Government family as a whole and collectively Local Government has demonstrated that it has made real efficiencies when reporting its performance against these targets.

28. In terms of meeting the financial challenges ahead COSLA believes that gap set out above cannot be compensated by simply doing more efficiencies. Of Local Government is looking at how much of the gap can be closed by efficiencies and councils are continually looking at how services can be streamline to ensure that the front line provision is maintained but at a reduced cost. It is however important to realistic about what efficiencies can be delivered over the spending review period and there is no benefit in pretending that the challenges in funding can be met by greater efficiencies than is realistically possible.

29. In terms of shared services local government is supportive of identifying improvements and efficiencies in service delivery by coming together but believes that this area should be considered as part of the overall efficiency agenda and should not be singled out as a separate policy route. Shared services can mean many things but often tends to be very narrowly viewed as full scale re-organisation but can also mean internal transformation projects. However shared services is viewed we must be clear that projects are business case assessed and led and that any pay back period is reasonable and not too far into the future when the world could have changed in many other ways.

**Ring-fencing**

30. COSLA welcomes the Government’s position to resist calls to a retreat from hard won gains in terms of the reduction in ring fencing. Since 2007-08 local government has seen a significant reduction in ring-fencing and has freed up officer time due to the significantly reduced bureaucracy and allowed Councils to devote resources more effectively rather than artificial limitations placed on how the money is spent. In turn outcome agreements have been developed which ensure that that is our focus.

31. Some parties may be inclined to call for the reintroduction of ringfencing as a means to protect vulnerable groups from the adverse effects of any budget reductions. COSLA is absolutely averse to ringfencing as we firmly believe it diminishes Local Government’s flexibility and therefore its capacity to deal with the
financial pressures ahead. In fact ringfencing would exacerbate the impact of the financial climate as more and more of the budget would be protected reducing scope to make efficiencies. In an environment of outcome agreements, there should be no requirement for ringfencing. Local Government is committed to the outcomes agenda and does not need central direction to protect the vulnerable.

Conclusion
32. COSLA Leaders have agreed in principle to accept the local government settlement as set out by the Government and this is in recognition of the financial challenges faced by the whole of the public sector. Over the spending review period local government will need to prioritise spend to meet the resources available. With inflationary pressures and increasing demand local government will look to improve practice and drive out efficiencies, however this will not close the funding gap that local government is anticipating over the coming years. COSLA therefore welcomes the continuation and expansion of the change funds as a first step to redirecting spend from acute to early intervention. COSLA believes that the public sector needs to build on this and moving forward we need to maintain the focus on outcomes and review the way in which we deliver our services.

COSLA
25 October 2011
Submission to the Independent Review of the Scottish Budget

Introduction
33. COSLA welcomes the opportunity to respond to the Independent Review Panel’s Initial Call for Contributions to its review of public expenditure in Scotland. COSLA also welcomes the opportunity to discuss its submission with the Panel members and to work closely with them to inform the ongoing work of the Review. COSLA’s submission is set out below.

Background
34. COSLA recognises the highly challenging financial implications for the public sector in the years to come and we would like to make the Panel aware that Local Government is acting now to address how these challenges may be managed. By doing this early, COSLA believes that the impact on our communities and the services they receive will be understood and kept to a minimum. Sitting back and waiting to see what the next spending review brings will only result in ill planned knee jerk reactions which could have significant implications for the communities Local Government serves. Given the forecasts contained within these financial predictions, Local Government recognised at an early stage the need to be proactive in this debate. Over the summer and autumn of 2009, COSLA developed its strategic approach to the next spending review based on an early planning assumption of a 12% real terms reduction in funding over the next spending review period.

35. Unlike spending reviews before COSLA is working on a partnership basis with the Scottish Government as we believe the changes that are required to get through the years ahead cannot be considered in isolation without full discussion with public sector partners. Given this work is well underway we want to ensure that the Panel is fully aware of the process we are undertaking as we believe that this work and that of the Panel should be complementary to each other.

36. In responding to the Panel’s Call for Contributions, this written submission intends to set out the approach Local Government is taking to the next spending review, as referred to above. The second part of the submission will focus on some of the key issues COSLA would like the Panel to consider as part of its deliberations.

New relationship
37. The new approach to the spending review has been developed through experiences gained from prior spending reviews along with the need to take on a fresh look at how we approach public sector finances given the financial challenges ahead. As background to the approach adopted we would like to make the Panel aware of the context that provided the framework to this approach.

38. The Concordat, struck between the Scottish Government and Local Government under the Spending Review 2007, represents a dynamic relationship between the two spheres of Government and is based on mutual respect and partnership. This is in contrast to the approaches to previous Spending Reviews which, whilst beginning to move toward greater partnership, were more often characterised by specific arguments over resources and differences of opinion over priorities. Whilst the media and other interest groups may focus on the few specific commitments contained within the
concordat the most significant principle on which it was based was the way in which Local Government and Central Government should conduct its business for the benefit of our communities and that this should be based on a relationship of trust and respect. Against this backdrop the key relationship features were:

- A commitment by Scottish Government not to micro manage service delivery and to allow Local Government to make the decisions at a local level.
- Single Outcome Agreements based on agreed national outcomes rather than focussing on input targets.
- A substantial reduction in the amount of funding which is ringfenced and consequent reductions in bureaucracy.
- A climate of shared responsibility and a respectful recognition of the importance of both spheres of Government for local communities in Scotland.

39. This new way of working has been in place for more than two years now and, whilst it is fair to say that there have been tensions, Local Government remains fully committed to the principles of the partnership working. With the future financial challenges the relationship will inevitably be tested, however Local Government believes that the very fact this new relationship is in place should help ensure that difficulties can be resolved in a mature fashion.

40. **COSLA is asking the Panel to recognise that an open partnership between spheres of Government is a more likely route to achieve the best result for our communities in this time of reducing resources rather than the old style opportunistic route. We must secure the gains of the new relationship, such as single outcome agreements and reduced ring-fencing, and not revert to old ways of working. Moving forward we should build on this and encourage the whole of the public sector to adopt this way of working.**

**Complementary nature of work already being undertaken by Local Government**

41. As highlighted it is against the backdrop of the new relationship that the approach to the next spending review has been developed. In taking this agenda forward COSLA has been committed from the outset to a substantive piece of work which examines the whole of Local Government expenditure, not just at the margins, as this was deemed necessary given the financial forecasts. Crucially, this work is being taking forward on a partnership basis between COSLA and the Scottish Government and is being overseen by a group of senior officers called the Strategic Funding Review Group (SFRG). Membership of the SFRG includes, senior COSLA officers, representatives from SOLACE, CIPFA Directors of Finance, the Improvement Service and Senior Government officials. This work, which pre-dates the announcement of the Independent Review, has political backing from both COSLA's political Group Leaders and the Scottish Government's Cabinet. The very fact that we are in a joint arrangement on the spending review with the Scottish Government speaks volumes about the unprecedented times we are facing and sets the framework to allow us to jointly seek solutions.

42. The overarching approach of the SFRG is to determine what level of funding Local Government would require if it were to continue with current policies and consider this against the expected resources available over the next spending review. Given the financial forecasts it is expected that there will be a significant gap between expenditure and income and therefore some serious discussions need to take place around how this gap is closed.
43. A sophisticated model has been developed to map out expected expenditure over the next six year period (two spending reviews) and this incorporates demographic change and other changes in service demand. In order to identify the potential gap between expenditure and income a planning assumption around expected funding levels has been agreed with Government based on a number of forecasts including the Treasury information, the CPPR report etc. As part of the approach SFRG is assessing how much of this gap can be self managed by Local Government through efficiencies, inflation control etc. Once the gap analysis is complete it is intended that this will provide the platform for joint discussions around policy delivery.

44. In line with this framework the SFRG is working to a workplan which has been jointly agreed by COSLA’s political Group Leaders and the Cabinet. The workplan is based on the following key steps:

- Support the realistic planning assumption jointly agreed by national and Local Government about the likely real terms cut in the Scottish budget based on the best available up to date information. This assumption will have to be updated regularly and for our work will need to reflect what sources are willing to say privately as well as what might be stated publicly;
- forecast forward the cost of all existing plans and policies;
- assess the funding gap between the first 2 categories;
- assess how much of that gap can be filled by administrative action (for example, keeping pay down and through greater efficiencies);
- assess what can be delivered through shared services; and
- Determine from the remaining gap where we will need to prioritise and make the tough choices.

45. Very good progress is being made on the workplan with the gap analysis elements due for completion by the end of April. To ensure its credibility with the wider community the financial model is being road tested by both Local Government and the Scottish Government. The model includes key assumptions around Local Government’s position on future efficiencies etc and once the road testing has been completed we would be happy to share the results and assumptions contained within the model with the Panel.

46. The purpose of the financial modelling is to provide a basis on which to commence discussions around future service delivery and to undertake some scenario planning of what different choices would mean. This is a critical element of the collective approach. COSLA believes that some big decisions are required given the financial landscape and any changes will take time to bed in. COSLA therefore also believes that the timing of this work is crucial. The modelling work is looking at the next two spending review periods given that significant changes cannot always take place over night. Given that the next spending review covers the period commencing April 2011 there should therefore be some sense of urgency from all public sector partners that this work needs to start immediately. The public sector as a whole cannot afford to wait until the UK spending review has been delivered. We know that there are significant cuts ahead and procrastinating could lead to panic led decisions where the real opportunity cost of these decisions is unknown.
47. The approach to this spending review is characterised by a collective will to address the challenges ahead. Engagement with the relevant Professional Associations has always been important to COSLA and this time round is no exception. The SFRG is committed therefore to an inclusive approach whereby the Professional Associations can play their part. The SFRG has met with the key professional associations and they are fully versed with the approach being undertaken and some of the larger professional associations are involved in the road testing exercises. The SFRG will also continue to meet with the Professional Associations at key stages to discuss the results of the gap analysis work and to ensure they are involved in the policy review/scenario planning stages.

48. In setting out the above approach COSLA believes that the work being undertaken by the Independent Review Panel should be complementary. COSLA has also provided evidence to the Parliament’s Finance Committee as part of their budget review and again we have stated that there is a risk that if these individual pieces of work consider the issues in isolation of each other there is a risk of duplication and that mixed messages are portrayed which are counter-productive and divert attention away from what actually needs to be done to address the fundamental issues.

49. We believe the approach we have adopted, which looks at the entirety of our expenditure, not just the margins, and maps the gap between projected expenditure and income and encourages a debate about policy choices, is rigorous and therefore we are seeking the Panel to endorse this approach and advocate that an equally transparent process be adopted across the whole of the public sector. We would also like the Panel to encourage all parties to maximise on the timescales we have set as we believe we cannot afford to delay.

Further issues to be considered by the Panel

50. In addition to setting out Local Government’s approach to the spending review there are some key issues we would like the Panel to consider as part of its deliberations. These issues are set out in the remainder of the submission.

Moving to an Outcomes based approach

51. As we go into the next spending review period, we must see a move away from input measures. Inputs such as class sizes and police numbers do not deliver on our outcomes and they become populist shorthand for policy success. If the external world continues to define success in terms of inputs we cannot possibly succeed in delivering quality services with less resource. Examples include success being defined as:

i. the number of people we have in prison rather than the numbers who do not re-offend; or

ii. teachers numbers as opposed to educational attainment of our children.

52. Local Government has worked closely in partnership with the Scottish Government to develop Single Outcome Agreements which arose as a central pillar of the Concordat between Local and Scottish Government. These are agreements about how individual Councils will work to achieve outcomes for their own communities whilst largely aiming to reflect the Scottish Government’s national outcomes. It is important to note however that Councils interpret the national outcomes locally and therefore each Council will have differing priorities according to local circumstances.
53. Single Outcome Agreements have been in place since June 2008 which was a full year earlier than planned by the Government. Councils then committed to deliver even more ambitious SOAs, which included the outcomes across Community Planning Partnerships in every local authority area, and these were introduced in June 2009. It is these SOAs which will be measured on an ongoing basis and the first annual review of SOAs will be taking place in October 2010, whereby CPP’s will report both to their local communities and to the Scottish Government on their performance. It should also be stressed that an SOA is a mutual agreement between all the partners including the Scottish Government and all partners are held accountable.

54. Local Government is leading the way in developing an outcomes based approach and Single Outcome Agreements are merely the start of this process. We need to continue this hugely important work and the challenges which lie ahead serve to galvanise our resolve to move in this direction. The rest of the public sector really needs to follow our lead on this so that we can begin to work properly together to manage our collective resources to achieve agreed outcomes.

55. Parliament also has a role to play in acknowledging the very real change which has taken place in Local Government in terms of the move to single outcome agreements. All too often Parliament’s focus is on measuring performance using input measures and that focus must shift if we are truly going to reap the benefits of an outcomes approach and not operate a dual system. If we want a cohesive approach across the whole of the public sector the scrutiny role that Parliament plays must adapt to recognise this change.

56. **COSLA would like the Panel to recognise that, whilst the outcomes based approach is not yet fully developed across the public sector, it is worth pursuing and is the most likely model to result in a cohesive approach to spend across the public sector.**

Three fundamental questions for the Panel

57. We believe that moving forward there are some fundamental questions that should be asked. We consider these fundamental in the sense that they could radically impact on the way we currently provide services. The Panel should be aware that it is not that COSLA necessarily has its own answer to these questions rather that we believe these are questions we need to ask ourselves and the rest of the public sector when taking decisions around future service delivery. **Overall we would like to ask the Panel whether they are in a position to seriously look at these issues:**

1. Within a reduced allocation of resources, should services be universal or targeted? More and more of the public sector’s resources are being tied up in universal provision and we need to ask ourselves is this the best use of scarce resources. The real concern is that many of the services which are currently universally provided are areas which are growing as a result of demographic change e.g. care for the elderly. There is a creeping acceptance that universal provision is the norm but carrying on with universal provision is as much a policy choice as not doing so. In considering policies the starting point must be to ask whether the service should be universal or targeted. **COSLA believes that it is legitimate to make policy choices around universal provision but they should only be done so with the full understanding of the opportunity cost involved in making these choices.**
ii. COSLA has found it more difficult to promote a more radical debate about the responsibility of the state, individual and community but in the longer term these responsibilities must be addressed. Communities play their part in a whole range of services provided within their communities and this type of co-production of services needs to be looked at more fully, in particular around how we work with communities to play their part and how they can take greater responsibility, rather than just relying on the public sector to deliver services. **COSLA believes that co-production of services does need to be on the agenda, even though we recognise the sensitivities around this. Will the Independent Review be looking to act as a catalyst for such a debate across political parties?**

iii. Another fundamental change would be to seek to use resources differently by engendering transformational change now through early intervention which diminishes the need for reactive services in years to come. **Will the Independent Review be able to push an exploration of how early intervention can be funded?** Furthermore, if the only option is to re-direct resources, can the Independent Review act as a catalyst for the development of a sustainable model to re-direct resources without jeopardising reactive services currently? This area is further explored later in the submission.

**Efficiencies**

58. Local Government is ahead of the game when it comes to tackling efficiency and has consistently exceeded targets. Local Government has prioritised this area but that does mean the capacity for making future efficiencies is reducing. Efficiency targets are set for the Local Government family as a whole and collectively Local Government has demonstrated that it has made real efficiencies when reporting its performance against these targets.

59. Between 2005/06 and 2008/09, Local Government reported efficiencies of £727m against a Scottish Government target for the four years of £502m. This is a success story for Local Government and all indications suggest that efficiencies will continue to be made, albeit on a more limited scale, and that efficiency is well ingrained in the planning approaches adopted across the board within the Local Government family. In partnership with the Scottish Government, Local Government has developed the framework for verifying efficiency gains which is based on self assessment within an appropriate framework of guidance.

60. In terms of meeting the financial challenges ahead COSLA believes that the reduced level of funding cannot be compensated by simply doing more efficiencies. In line with the work of the SFRG, Local Government is looking at how much of the gap can be closed by efficiencies and we would be happy to share this with the Panel on completion of the modelling work (end of April). However the message must be clear that this problem is bigger than just doing more on efficiencies and the debate must move past this and centre on future policy delivery.

61. **COSLA would like the Panel to acknowledge that it is sensible to be realistic about what efficiencies can be delivered over the spending review period and there is no benefit in pretending that the reduction in funding can be met by greater efficiencies than is realistically possible. Explicitly we would like the Panel to give weight to the view that the downturn in resources can not be filled solely through efficiencies.**
Shared services
62. In terms of shared services COSLA believes that this area should be considered as part of the overall efficiency agenda and should not be singled out as a separate policy route. Shared services can mean many things but often tends to be very narrowly viewed as full scale re-organisation but can also mean internal transformation projects. However shared services is viewed we must be clear that projects are business case assessed and led and that any pay back period is reasonable and not too far into the future when the world could have changed in many other ways.

63. On a larger scale we need a real exploration of what is possible when the basic structures remain the same but there is a fundamental alignment across the public sector. We also need to be able to discuss radical options. For example, we have been pressing for some time for consideration of community health services moving into social care leaving a nationally run acute service. Clearly other partners might bring different options to the table whereas the primacy we place on local democratic accountability suggests this option to us. However, the real point is that it is very difficult to even have this kind of radical debate. Would the Independent Review be able to act as a catalyst here?

64. In respect of shared services there are therefore four key messages we would like the Panel to endorse:

- Only go for shared service projects that show results in a reasonable timescale;
- Shared services must be business case assessed and led;
- The focus should be on maximising the opportunities presented by existing shared service infrastructure that has already been invested in.
- Finally shared services is a key area which Local Government is looking at but like the message on overall efficiencies it should not be viewed as the sole answer to plug the reduction in resources.

Workforce planning
65. Local Government employs circa 300,000 people and inevitably the biggest area of spend for Local Government is its workforce. The workforce is the people who manage and deliver services and is the core of everything which Local Government can achieve. Planning how the workforce of the future can ensure much needed services continue to be provided is a paramount consideration for Local Government. A significant percentage of Local Government’s budget is driven by who we employ and given the reduction in resources ahead there will inevitably be job losses. Councils will not take these decisions lightly but in making these decisions consideration needs to given to:

- the impact on future service delivery,
- the implications for individual communities;
- the implications for the economy at a macro level; and
- Potential displacement of costs to other service areas including benefits etc.

66. Any reduction in the workforce will also require upfront investment to realise future benefits. Given the financial constraints ahead, councils will require flexibility from Government to be able to cope with this added pressure.
67. As part of workforce planning, COSLA believes that there is merit in a public sector pay strategy. Pay restraint will be a significant factor in helping the public sector through this difficult financial period and therefore a collective strategy will help avoid individual pay sectors being targeted.

68. The key message for the Panel is that whilst pay restraint and reductions in the workforce will help ease the pressure of the downturn in resource, this will require upfront investment and we cannot be short sighted and must consider the wider and long term implications of such decisions.

Ringfencing
69. As we approach the next spending review and resources shrink, COSLA would resist any calls to a retreat from our hard won gains, for example, reductions in ringfencing, more flexibility in use of resources, Single Outcome Agreements as the driver of budgets not inputs.

70. During this Spending Review period Local Government has seen a substantial reduction in the level of funding which is subject to ringfencing from £1.56bn in 2007/08 to £328m in 2010/11. This has freed up officer time due to the significantly reduced bureaucracy and allowed Councils to devote resources more effectively rather than artificial limitations placed on how the money is spent. In turn outcome agreements have been developed which ensure that that is our focus.

71. Some parties may be inclined to call for the reintroduction of ringfencing as a means to protect vulnerable groups from the adverse effects of any budget reductions. COSLA is absolutely averse to ringfencing as we firmly believe it diminishes Local Government’s flexibility and therefore its capacity to deal with the financial pressures ahead. In fact ringfencing would exacerbate the impact of the financial climate as more and more of the budget would be protected reducing scope to make efficiencies. In an environment of outcome agreements, there should be no requirement for ringfencing. Local Government is committed to the outcomes agenda and does not need central direction to protect the vulnerable.

72. There are however a few areas where COSLA has agreed ringfencing, but this has been done so on a partnership basis and full agreement with Local Government. A good recent example of this is the reform of Police and Fire pensions administration whereby COSLA agreed that monies should transfer from Local Government settlement to ring fenced grant funding to Police Boards directly from Government, this was in return for ensuring that Local Government is protected in future from variability in pension costs and ensuring Government picks up the risk of future additional costs.

73. COSLA would ask the Panel to resist any calls for the reintroduction for ringfencing and agree that protecting certain budgets will inevitably mean greater pressures on other areas and will reduce Local Government’s flexibility to deliver on the nationally agreed outcomes.

Transformational Change
74. In times of tightening resources there is a natural inclination to talk about structures and focus the debate on structural reform. COSLA does not believe that there is any benefit in doing this and in fact focusing the debate on redrawing Local Government boundaries only serves as a distraction to the real issues. However we recognise that Ministers will want reassurances that the structures in place are working. We therefore
believe that the real focus should be on transformational change and at the heart of this should lie the most effective ways to deliver the right services in the future.

75. COSLA believes that there is a significant message around transformational change which we want to bring to the attention of the Panel. Local Government has identified three broad strands in its thinking on transforming the nature of the services it provides or are provided by the public sector as a whole, these being to develop a model for early intervention, taking forward our own reviews for example in the care of older people, and co-production of services with the communities who receive these services.

Early Intervention
76. The recent joint COSLA and Improvement Service Submission to the Joint Ministerial Task Force on Health Inequalities highlighted the need to redirect resources from reactive services to preventative services. Currently, resources across Local Government and the NHS are heavily weighted towards reactive care and crisis intervention: hospitals account for vast amounts of money within the NHS and most procedures and services tend to be focused on dealing with illnesses and medical emergencies. Equally, if we look at social work services, most provision is still directed at people with critical social care needs, for example individuals and children who have experienced a crisis episode and who require formal social support. In short, we spend large amounts of money dealing with ‘negative outcomes’.

77. We need to find a route to redirect resource from crisis intervention to crisis prevention. That means all community planning partners will need to find a means of better supporting preventive services (like housing support, health screening, family support, community policing) and managing reduced services at the acute end (e.g. care home provision, acute hospital provision, prosecution). This implies the need for community planning processes to be strengthened, and in particular, thought given to the alignment and possible integration of some budget lines and the accountability and the governance issues which this raises.

78. Further thought also needs to be given to disinvesting in the services which serve to consolidate the reactive service provision. This will create political challenges insofar as that translates to providing less service in some areas. We need to be open with communities as to why early intervention measure and the preferred route and why current service models are not addressing social problems at their root, and this will need to be followed by difficult disinvestment decisions.

79. Whilst there is widespread recognition that a conservative approach to managing budget pressures will make the reform agenda more difficult to progress, the reduction in resources may cause Councils and their partners to fall back on protecting core services rather than delivering this transformational change. To put it starkly, short-term efficiencies could entrench service models that are not sustainable in the longer term and suffocate early intervention strategies. However, in recognising this problem it is insufficient merely to encourage councils and their partners to re-focus on the early intervention agenda. This will be difficult to achieve within current rigid resource structures and allocations which are antipathetic to redirecting resources upstream. The total public sector spend in Scotland (£33billion) represents a considerable public resource but we need to find an effective means to invest this in sustainable services and interventions. The difficult decisions will be coping with the short term whilst making the longer term more affordable.
80. **There has been no debate at a macro level about how we would start redirecting resources to early intervention practices.** As highlighted in paragraph 24 (iii), COSLA would like the Panel to encourage a public sector debate of how we go about doing this. On the surface everyone agrees the importance of early intervention and the need to shift the focus from acute provision but we need a model to do this. It will be challenging to stop investing in one area so how do we go about this? For example can we really afford to pursue this on an incremental basis? Given the demographics, the opportunity cost of not investing in early intervention and prevention will be overwhelming and Local Government believes we need to act now.

Local Government led reviews
81. Local Government has and will continue to be pro-active in reviewing the services it provides and there are well developed examples of where we have done this. A good example for the wider reviews to consider is the work done to review older peoples’ care. Our review, which we have worked on in partnership with the Scottish Government and NHS Scotland, has a goal to bring about real aspirational change in the way older people are cared for. This philosophy begins with a view that older people are an asset not a burden and that we should be helping older people remain independent and healthy.

82. It is important to emphasise that care for older people (and all people) is based on a compact between individuals and their carers, local communities and the state. A mutual care approach is required that supports and enables the compact to achieve the best possible outcomes for the individual requiring care and their unpaid carers. The potentially significant contribution of communities alongside unpaid carers and the state should be recognised. What is more, care should be personalised to the needs of the individual and be outcomes focused, through the setting of personal goals. The principles underpinning this approach to care are applicable regardless of the extent of care required; however frail a person is, the aim must always be to help them achieve their best possible quality of life within whatever limitations they face.

83. Our current care system seeks to provide extensive and universal services through the welfare state and formal care and health systems. However, this has arguably built up a dependency culture which can undermine the policy goal of “optimising independence”. We want to generate a debate that seeks to promote an “enabling” approach. Helping people to stay out of the formal care system safely is a very positive message. This is one example of the pro-active approach which Local Government takes to the delivery of services, though of course we could mention other examples across the wide range of services we provide.

84. **In summary we would like to make the Panel aware that Local Government is active in leading reviews in key areas but the culture across the whole of the public sector can often make progress difficult.**

Co-production of services
85. As highlighted under 24 (ii) COSLA has found it more difficult to promote a more radical debate about the responsibility of the state. **COSLA believes that co-production of services does need to be on the agenda and would like the support of the Panel to galvanise this debate.**
New approaches to resourcing
86. As part of the transformational change agenda COSLA recognises that new approaches are required. This section aims to set out a few examples of areas Local Government is actively looking at.

87. Local Government is aware of the Total Place agenda south of the border. Whilst we are keeping a watching brief on this area the issues that Total Place is trying to address we too are trying to address when looking at the resources between Local Government and the NHS. For example COSLA is exploring ways in which funding can be jointly managed between Health and Local Government and this is setting a marker for collaboration between public bodies. Historical mechanisms for transferring resources between Health and Local Government, like Resource Transfer, serve to reinforce the idea of separate budget lines and are based on a traditional command and control relationship. This is increasingly being supplanted by more innovative approaches to resource allocation, like the Integrated Resource Framework, which is based on partnership and on a recognition that resources ought to be considered in the round if they are to contribute to key policy goals like shifting the balance of care.

88. As a specific example of new approaches being taken forward it may be worth saying a little more about the Integrated Resource Framework (IRF). This is a new approach to managing finances across health and Local Government, which is being piloted in four health board areas in partnership with the local authorities within those territories. The IRF is designed to ensure that resources are deployed more effectively within the health and social care environment. It is hoped that the IRF will improve the efficiency with which partners allocate the entirety of their resources across Care Programmes and develop strategies that disinvest in some programmes and shift resource to fund real investment in other programmes. Partners will shift the balance of care from treatment to prevention and from institutional to community and domiciliary settings to produce reductions in real unit costs and improvements in quality, thereby driving gains in outcomes. It is ultimately hoped that protocols will be established that describe agreed and transparent methods to allow resource to flow between partners, thereby following the patient to the care setting that delivers the best outcomes.

89. Another example where Local Government is looking for a new approach to freeing up resources is with Affordable Housing. Most of the Affordable Housing Investment Programme (AHIP) is used to provide grants to Registered Social Landlords (RSLs) to build new homes for rent and low-cost home ownership, but also includes grants and assistance to Councils, individuals and private companies. The AHIP is in the region of £1.7 billion (though this is not immune from the wider future financial reductions) and is currently made up of a variety of different grant mechanisms which are very much central Government driven. However Glasgow and Edinburgh Councils manage their own AHIPs and COSLA believes that this model could be replicated across all local authority areas in order to give Councils the autonomy to more effectively manage their Strategic Housing Investment Plans, regardless of who is in fact spending the money.

90. New approaches to resourcing are being identified but at present these are happening at a relatively low level within Scotland. COSLA would welcome the Panel’s support in encouraging the whole of the public sector to become actively engaged in discussions around this area.
Council tax

91. Given the financial forecasts one of the obvious areas for Local Government to generate more funding is through the council tax. The Panel will be aware that councils have frozen council tax over the last three years as part of an agreement around funding with the Scottish Government. No such agreement is in place going forward and therefore COSLA believes that any discussions involving council tax into the future must be included as part of the overall policy debate to take place. **It is legitimate to make policy choices around council tax but this should only be done with the full understanding of the implications and opportunity costs of taking such decisions.**

Conclusion

92. COSLA is pleased to be able to contribute to the work of the Independent Review Panel and trusts that the Panel will find the submission presented above useful in taking forward its work. The submission has set out COSLA’s approach to the next spending review and has raised some key issues we would like to the Panel to consider. COSLA is more than happy to provide further information on any of the areas of its submission and looks forward to working with the Panel as the review progresses.