

**Scottish Parliament Finance and Public Administration Committee - Pre-Budget Scrutiny Call for Views**

**Report by Gary Fairley, Chief Officer Corporate Solutions**

**Report for Decision**

**1 Recommendations**

Council is asked to agree the appended submission in response to the call for views from the Scottish Parliament's - Finance and Public Administration Committee as part of its pre-budget scrutiny.

**2 Purpose of Report/Executive Summary**

On 24<sup>th</sup> June 2022, as part of its pre-budget scrutiny, the Finance and Public Administration Committee of the Scottish Parliament launched a call for views on Scotland's public finances in 2023-24 and the impact of the cost of living and public service reform.

While the deadline for responses was set for Friday 19 August 2022 the clerk to the committee has advised that she is content for the Council to submit a late response to the call for views so allowing Council to consider the draft submission at today's meeting.

The call for views highlights that the committee is particularly interested in views on how the rising cost of living will impact on the Scottish budget in 2023-24 and will the Scottish Government's proposals for reforming the public service deliver the efficiencies expected.

**Date: 22 July 2022**

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### 3 Background

The Scottish Parliament's Finance and Public Administration Committee was established in June 2021 and focusses on:

- Scotland's public finances
- Public service reform
- The National Performance Framework
- Public administration in government.

Kenneth Gibson MSP is the Convenor of the Committee with membership consisting of the following MSP's :- Daniel Johnson , Ross Greer, Douglas Lumsden, John Mason, Liz Smith and Michelle Thomson.

The work of the Committee includes Scotland's public finances in 2023-24: the impact of the cost of living and public service reform. The focus of the committees pre budget scrutiny for 2023-24 includes is consideration of how the rising cost of living will impact on the Scottish Budget in 2023-24 and will the Scottish Government's proposals for reforming the public service deliver the efficiencies expected.

Pre-budget scrutiny aims to:

- influence how the Budget is prepared
- improve transparency and increase public awareness of the Budget
- consider how the Scottish Government's Budget for 2023-24 should respond to new fiscal and wider policy challenges
- lead to better results and outcomes when compared against the Scottish Government's targets and goals.

Pre-budget scrutiny normally takes place in the months leading up to the Scottish budget. As part of this year's pre-budget scrutiny the Committee will use this year's Resource Spending Review by the Scottish Government to inform its pre-budget scrutiny. The Resource Spending Review aims to set out spending plans for the remainder of the parliamentary term in support of the government's ambitions from 2023-24 to 2026-27.

The committee will focus primarily on three areas from the spending review:

- Proposals for public service reform,
- Impact of the cost of living crisis on the Scottish Budget 2023-24, and
- How spending priorities might affect the delivery of national outcomes.

The following key documents will inform the committee's pre-budget scrutiny:

- Scotland's Economic and Fiscal Forecasts – May 2022 by the Scottish Fiscal Commission
- the Scottish Government's Resource Spending Review (RSR), and
- the Scottish Government's Medium-Term Financial Strategy (MTFS).

These documents were all published on 31 May 2022 alongside a targeted review of the Scottish Government's 2021-22 to 2025-26 Capital Spending Plans, setting out capital funding allocations by portfolio for 2022-23 to 2025-26.

The call for evidence runs from 24 June until 19 August 2022 with the committee then hearing oral evidence in late September / early October 2022 with the Committee then considering its draft report which will be published shortly after.

#### **4.0 The Call for Views**

The Committee has set out specific questions to which it is seeking responses as detailed below. The proposed response to these question is set out in the appendix to this report.

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?
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, the Scottish Budget in 2023-24 could be £221 million lower. How should the Scottish Government's Budget 2023-24 respond to this challenge?
3. How should the Scottish Government respond to inflationary pressures and the cost of living crisis in its Budget 2023-24?
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?
  - digitalisation
  - maximising revenue through public sector innovation
  - reform of the public sector estate
  - reform of the public body landscape
  - improving public procurement
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.

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 2023-24 can be properly identified and tracked?

## **5 Report Implications (Resource, Digital, Risk and Equalities)**

### **5.1 Resource**

While the subject matter encompasses resources there are no direct resource implications arising from the report itself.

### **5.2 Digital**

There are no digital implications associated with the recommendations.

### **5.3 Risk**

There are no risks directly associated with making a submission. The response to the questions posed by the Committee highlight the risk the Resource Spending Review presents for local government.

### **5.4 Ensuring Equalities**

There are no equality implications associated with making a submission.

### **5.5 Additional Report Implications (See Appendix A)**

## **Appendices**

### **Appendix A – Additional Report Implications**

## **APPENDIX A – Additional Report Implications**

### **A.1 Key Priorities within the Single Midlothian Plan**

Sustainable funding is critical to the delivery of the Midlothian Local Plan. By making a submission as part of the call for evidence the Council can seek to influence the pre-budget scrutiny of the Scottish Government's budget for 2023-24.

### **A.2 Key Drivers for Change**

Key drivers addressed in this report:

- ☐ Holistic Working
- ☐ Hub and Spoke
- ☒ Modern
- ☒ Sustainable
- ☐ Transformational
- ☒ Preventative
- ☐ Asset-based
- ☒ Continuous Improvement
- ☐ One size fits one
- ☐ None of the above

### **A.3 Key Delivery Streams**

Key delivery streams addressed in this report:

- ☐ One Council Working with you, for you
- ☒ Preventative and Sustainable
- ☒ Efficient and Modern
- ☒ Innovative and Ambitious

### **A.4 Delivering Best Value**

No direct implications though sustainable funding is central to how and which services can be provided

### **A.5 Involving Communities and Other Stakeholders**

There has been no wider engagement in drafting this submission although the call for views is open to all and Trade Union colleagues have been made aware of the opportunity to make submissions.

### **A.6 Impact on Performance and Outcomes**

None

### **A.7 Adopting a Preventative Approach**

No direct impact.

#### **A.8 Supporting Sustainable Development**

No direct impact.

## Appendix

### **Scotland's public finances in 2023-24: the impact of the cost of living and public service reform.**

#### **Call for views – Draft Submission by Midlothian Council**

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?

#### **Response**

**Commentators on the RSR have recognised the impact on Local Government, with both SPICe and Fraser of Allander stating that the proposals essentially represent a 7% real terms decrease in funding between 22/23 and 26/27.**

**This is in contrast to the 4.7% real terms increase that the Scottish Government will see overall (2% if social security transfers are excluded), and the real terms increases that Health, Social Justice and Housing will see.**

**The real term decrease planned for Local Government comes on top of significant real term reductions since 2013/14, which has driven ongoing reform, rationalisation, innovation and transformation work across Local Government.**

**The commitments made in the RSR do not recognise or address the need for investment in upstream drivers and the role of the whole system in delivering this. The areas that show greatest investment are “downstream” areas as opposed to investing in the social determinants of health further upstream e.g. housing, employability, training etc.**

**In a similar vein the RSR does not give adequate prioritisation towards directing resources to support the impact of population growth noting that sustainable and inclusive population growth is critical to the growth of the Scottish economy. The financial implications of growth in areas such as Midlothian are now very real, and at a significant scale, and the ability to manage these collectively at a time when the authority is facing financial challenges of an unprecedented scale is becoming impossible to sustain.**

**Local Authorities can be the largest employer in their area. The reduction in the overall public sector workforce, if applied to local authorities will reduce the availability of jobs and so can only further exacerbate the cost of living crisis for those who may lose jobs or have reduced opportunities for employment as a consequence of workforce reductions.**

**Scottish Government is choosing to continue to direct spend at addressing problems, not preventing them occurring and also supporting those areas facing population decline at the expense of areas grappling with population growth. Increases in funding are proposed for Health and Social Justice but not for Local Government and the economy, the areas that can really address child poverty. By the end of 2026/27**

- **Health and Social Care spending will account for 40% of Scottish Government's resource spending**
- **Social Security assistance will account for 13%**
- **Local Government's core funding will account for 22%**

**Investment by Councils in universal services such as leisure, communities, youth work and lifelong learning can support prevention. However due to continued budget reductions to these services they are no longer able offer the breadth of preventative services required to support health and economic inclusion.**

**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, the Scottish Budget in 2023-24 could be £221 million lower. How should the Scottish Government's Budget 2023-24 respond to this challenge?**

### **Response**

**In developing its response to the overall quantum of resources that Scottish Government expects to have for financial year 2023-24 the RSR presents a further erosion of core funding for Local Government services. Councils, their partner providers, suppliers and employees are not immune from the cost of living crisis. Without adequate funding critical local services which those furthest from living well locally rely on will be cut with the inevitable loss of jobs further impacting on the local economy.**

**Adequate funding for Local Government is essential to support a strong vibrant and inclusive economy for the whole country. A necessity to grow the tax base and grow income tax receipts.**

**Supporting a vibrant and growing economy for Scotland needs adequate recognition and provision of funding to support services in areas of population growth and especially to fund the recurring revenue costs of those services which are essential to sustain a local population growth.**

**3. How should the Scottish Government respond to inflationary pressures and the cost of living crisis in its Budget 2023-24?**

**In the absence of additional income to the Scottish budget through tax receipts or the block grant the Scottish Government, like all individuals**



and organisations, needs to accept that the inflationary pressures currently being experienced represent an erosion of its spending power. It is appreciated that difficult decisions need to be made to balance budgets nationally and locally. However by continuing to prioritise and or protect initiatives or sectors such as health from the economic reality cannot be sustained at the expense of Local Government and the critical services which local government provide across the country.

The proposals in the RSR represent a real terms reduction for Local Government of 7%, and the Scottish Government needs to recognise the inflationary pressures across all areas of the public sector and not protect some at the expense of local government services.

The RSR indicates that pay inflation pressures may be managed by seeking to keep the overall public sector paybill static, so meeting inflationary pressures by reducing the size of the public sector workforce.

The feasibility of this for Local Government is questionable. Between 2006 and 2018, there was a steady reduction in Local Government workforce due to significant efficiency savings and service transformation programmes. By 2018 the workforce had reduced by circa 15% from 2006 levels. Significant Scottish Government policy direction since 2018 and the need to respond to COVID has meant staff increases to the extent that if staffing for additional commitments is removed, the Local Government staffing levels would be back at 2018 levels.

This is in contrast to trends in other parts of the public sector which have seen Scottish Government nearly double since 2006, Scottish Government agencies grow by 15% and NDPBS more than double.

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?

- digitalisation
- maximising revenue through public sector innovation
- reform of the public sector estate
- reform of the public body landscape
- improving public procurement

## **Response**

Local Government has been managing significant real term cuts to core funding for many years adopting digitisation, innovation, estate rationalisation and improved procurement to help mitigate the impact of these real term cuts. Any “easy” savings have been taken across Local Government. The continual cycle of cuts deflects effort from a concerted focus on prevention and improving outcomes.

**Whilst these areas of reform are all appropriate in the context of the Scottish Government's budget it is difficult to assess the extent to which they will contribute to mitigating the inflationary pressures and so support the spending review.**

**It is difficult to determine the extent to which any savings from these initiatives have already been accounted for in arriving at the RSR allocations for Local Government and other sectors and so the question of targets may be one that that committee may wish to scrutinise both in terms of quantum and deliverability.**

**In respect of reform of the public body landscape any change should be evidence led and have clear outcomes.**

**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.**

**The measures set out in question 4 will no doubt have a lead time for delivery and require upfront investment to secure the change required. It is difficult from the information provided to comment on how effective they can be. From a Local Government perspective and give the extent of change already secured over many years it is challenging to see how these initiatives could come anywhere near close to mitigating the 7% real terms reduction.**

**6. What impact will the Spending Review priorities have on the delivery of national outcomes in the National Performance Framework?**

**As set out the RSR will have a significant negative effect on Local Governments ability to 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?**

## **Response**

**The cash flat settlements for Local Government set out in the Capital Spending Review provide no additional capacity to Local Government to take forward the necessary investment in its asset base to shift to net zero targets. As such the CSR does not appear to make any attempt to targets spending to help Councils achieve net zero targets.**

**There needs to be engagement between levels of Government to understand the costs of achieving net zero targets and how best to funding these across the whole public sector.**

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?

**No observations to make.**