



## **SOLACE (Scotland) Strategy Paper**

### **The Future of Public Services in Scotland**

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# THE FUTURE OF PUBLIC SERVICES IN SCOTLAND

## 1. PURPOSE

- 1.1 The purpose of this paper is to set out SOLACE (Scotland)'s position on the future of public services in Scotland and to propose a strategy of rolling reform built on consensus about the future of public services.
- 1.2 We believe form should follow function. Our proposed strategy for Scotland is to deal with the short term financial issues in pragmatic ways, developing the progress already made in community planning and public sector reform, while building a consensus amongst all stakeholders about the role and nature of public services.

## 2. SUMMARY

- 2.1 Rapidly rising demand for services and unprecedented pressures on public finances means the UK will have to find new ways of delivering public services. SOLACE UK/CIPFA recently published 'After the Downturn'<sup>(1)</sup>, a report that highlighted pressures on UK public finances, set out possible scenarios, and explored options for reforming public services.
- 2.2 SOLACE (Scotland) is committed to exploring how Scottish public services, including local government, can meet the challenges ahead. The SOLACE/CIPFA report gives a realistic view of the challenges facing the public sector and offers a sensible approach to meeting them at UK level. We endorse both the analysis and recommendations of the report. This paper offers a Scottish perspective and proposes a distinct strategy that reflects our different circumstances. The five sections are;-
  - ❖ The Political and Financial Context
  - ❖ The Role of Local Government
  - ❖ Outline Strategy for Reforming Public Services in Scotland
  - ❖ Issues and Principles for Public Sector Reform
  - ❖ Conclusions and
- 2.3 Recent public debate in Scotland has focused on structural reform of public services and sharing of back office functions. Neither will produce a quick budget fix. Experience shows that major structural reforms are very costly and time consuming. Back office functions comprise less than 15% of total costs so even major savings will not deliver the size of cost reductions required. The report recently published by the Local Government & Communities Committee of the Scottish Parliament<sup>(2)</sup> on Local Government Finance provides a comprehensive review of the current issues facing councils. It also highlights the need for a strategic debate about the future of councils and their services. We see the need for the debate to cover all public services.

- 2.4 We propose a strategy for Scotland with two key elements to meet the challenges of the next decade. In the short to medium term, we need to deal pragmatically with the issues of the next Spending Review, including accelerating the reforms already started. SOLACE (Scotland) will commission guidance on this theme for local authority Chief Executives, for publication in 2010.
- 2.5 We also need a thorough and comprehensive debate about the provision of public services in Scotland to build a consensus for a sustainable future. The debate needs to be about more than the number of councils and other public bodies in Scotland. Structural reform may form part of the longer-term approach to bridging the gap between resources and demand, but the debate should focus on ensuring that public services are configured in the best possible way to deliver improved outcomes for local communities more cost-effectively.

### **3. POLITICAL AND FINANCIAL CONTEXT**

- 3.1 'After the Downturn'<sup>(1)</sup> notes that "The major political parties have acknowledged that public spending cuts are unavoidable. It is clear that the forthcoming General Election will be fought in large part on how spending reductions should be achieved and where they should fall."
- 3.2 The report analyses two scenarios for UK public spending in the three years after the 2010 Election. The first, envisages a 7.5% real terms cut, with similar cuts in the next three years. The second, envisages 15% real terms cut with possibly less severe cuts in the next three years.
- 3.3 The impact of such cuts in Scotland will depend largely on the workings of the Barnett Formula. Based on analysis by the Institute of Fiscal Studies, The Centre for Public Policy for Regions has estimated that there will be an 8.5% real terms cut in the Scottish Budget between 2009-10 and 2013-14.
- 3.4 Given the wide range of variables that underpin this figure, we consulted with CoSLA and CIPFA in September 2009 and agreed that councils should start preparing on a planning assumption of a 12% real terms reduction in spending over the next Spending Review period.
- 3.5 There remains considerable uncertainty about the validity of all the above estimates. In Scotland, two further elections in 2011 and 2012 add greater uncertainty as new Administrations deal with the financial crisis, for example by changing the Barnett Formula.
- 3.6 At the same time, local government is experiencing cost pressures, including increasing expectations and demand across the range of its services. Social care, in particular, faces increasing complexity of demand, for example specialist service provision for children and adults with severe learning disabilities and the increasing elderly population. There is also increasing demand for social housing, and rising numbers of placements for looked after children. The recession has accelerated many of these pre-existing patterns of demand.

### 3.7 Other cost pressures impacting on local government:-

- ❖ Growing regulatory burdens
- ❖ Above-inflationary rises in, for example, food and energy costs
- ❖ Climate change and environmental issues – e.g. increased landfill tax, the Carbon Reduction Commitment, and
- ❖ Increased need for flood prevention measures

3.8 This combination of declining finances and rising pressures from demand, regulations and costs, presents unprecedented challenges for Scotland's public services. This raises questions about the historic and future roles of public services in general, and of local government in particular.

## 4. The Role of Local Government

4.1 Local government is one element – albeit a key one – in the UK public sector. The range of services provided by the public sector has grown significantly over the years. What exists today can be characterised as an advanced welfare state, with a wide array of public services funded by taxation and delivered via a complex set of agencies, including local authorities.

4.2 Within the public sector, local government has historically been distinct from other forms of service delivery because of its democratic base, and the public accountability that flows from that. Local authorities therefore do more than provide and commission high-quality services: they serve, represent and lead local communities.

4.3 Local authorities provide a wide and increasing range of services, prioritised to meet the needs of local communities. Many are focused on addressing the main challenges facing Scotland: poverty, sustainable economic growth, early years interventions, demographic challenges and health inequalities. They are delivered in a joined-up way, tailored to the needs of communities.

4.4 Local authorities also have a significant economic role, acting as major local employers and drivers of economic development. They provide a regulatory function, encompassing, for example, licensing, environmental health, planning and trading standards. They also have a significant role in shaping local and regional third sector provision through their commissioning activities.

4.5 Increasingly, through Community Planning Partnerships, local authorities bring together the different parts of the public, private, voluntary and community sectors, to plan the provision of public services in local areas. This place-shaping role influences quality of life for individuals and communities alike.

4.6 In summary, local authorities are far more than straightforward service providers; they lead, represent and influence the well-being of local communities. We are convinced of the importance of a robust, democratically-elected local government, as a key component of the public sector in Scotland and the UK.

## 5. OUTLINE STRATEGY FOR REFORMING PUBLIC SERVICES IN SCOTLAND

5.1 SOLACE UK proposes a debate around three radical options that would lead to significant reforms in public services to meet the challenges of financial constraints and rising demand. They are not mutually exclusive and we believe they provide a basis for open debate about the role and nature of public services.

5.2 The three options are;-

- (i) Review and redefine the relationship between the individual and the State, specifically encouraging people to do more for themselves.
- (ii) Devolve more decisions to local bodies with minimal oversight, i.e. trusting councils and others to make judgements for their local communities. This should help rebuild local accountability.
- (iii) Better horizontal collaboration across Government and public services. The aim would be to achieve 'whole system efficiency'.

Different combinations of these options would be appropriate in different localities and differential application would be essential to recognise the diversity of local factors and circumstances in Scotland.

5.3 In Scotland, we see the need for an approach which reflects our particular circumstances such as;-

- ❖ 3 years of elections from 2010
- ❖ Distinct political, legal and administrative structures
- ❖ Different financial arrangements, both for central and local government
- ❖ The investment in Community Planning to date
- ❖ The diversity of our small country in terms of geography, history, culture, environment and economic conditions.

5.4 We acknowledge that there is a general view that Scotland has too many public bodies. As yet, however, there is no clear consensus on how to address this issue. The current structures may not be ideal for Scottish public services, but a simplistic exercise in redrawing boundaries will neither realise the required cost savings, nor result in a system of public service delivery that can meet projected levels of demand.

5.5 We see the need for a wider debate about the future shape of public service delivery in Scotland, not simply the number of councils or other bodies. That debate needs to be predicated on the basis that reform is not a simple budget solution: rather, it is about ensuring that public services are configured in the best possible way to improve outcomes for local communities.

- 5.6 We recognise that public service reform is not a short-term fix, and cannot, in itself, bridge the gap between demand and resources. We also would argue that significant structural reform of Scottish public services cannot happen quickly. Past experience has shown the need to take time over any major structural changes in our public services. Accordingly, we see the need for a strategy to meet the short term constraints while building a consensus on the role and nature of public services in Scotland post recession.
- 5.7 Accordingly we propose a strategy of evolution – or rolling reform – that builds on the reforms already started and allows the lessons from them to inform the debate about the long-term shape of public services in Scotland. This requires two distinct elements.

### **Element 1 – Accelerating and Extending Current Reforms**

- 5.8 Given the imminent financial pressures, we propose that Scottish public spending should be managed in a pragmatic way, dealing with immediate pressures and accepting such reductions as can be achieved with least damage to front line services. The next section sets out areas and ideas for managing that process.
- 5.9 The Scottish Government and Parliament should agree to a programme of rolling reform of public services, including a presumption against any ‘freestanding’ major restructuring of Scottish Public Bodies. Any major change proposals should emerge from the process of reform already in train and only proceed where:-
- ❖ there is a clear consensus that they are appropriate,
  - ❖ there is a strong business case, and
  - ❖ they can demonstrate they will not compromise any proposals in another area.

This approach would allow changes already being considered, such as the Clyde Valley Council shared services project, to proceed.

- 5.10 Committing to such an approach will create space and provide evidence for the separate, wider ranging debate on the future role and nature of Scottish public services.

The next section (6) offers ideas and issues that should be covered in that debate.

### **Element 2 – Building a Consensus on the Future of Public Services in Scotland**

- 5.11 We think this is the right time to review the role and nature of public services in Scotland, in a comprehensive way. The review should look beyond the immediate issues of financial constraint, rising demands and expectations on services, and regulatory burdens. It must also recognise the growing rate of change in attitudes, technologies and expectations in the second decade of the 21<sup>st</sup> Century and beyond. It can be informed by the evidence and experience of the rolling programme of public sector reform.

5.12 Some of the questions that need to be addressed are:-

- ❖ The strategic options raised in 'After the Downturn'<sup>(1)</sup>
- ❖ The issues covered in the report by the Local Government & Communities Committee<sup>(2)</sup>, which we would highlight
- ❖ The role of the public sector beyond 2015
- ❖ What services should be delivered directly in different areas
- ❖ The appropriate balance between public and private sectors in terms of GDP
- ❖ Appropriate and proportionate accountability for each sector of the economy
- ❖ Appropriate behaviours in public life and private/voluntary sectors and...
- ❖ Incentive systems to encourage those behaviours

5.13 Other stakeholders will raise other issues and questions, and few if any will have a simple answer. The process of review and debate should be geared to building consensus on what is desirable and achievable across all public services.

5.14 We propose that a tri-partite Group from the Scottish Parliament, Scottish Government, and CoSLA should lead the debate. We will provide both support and advice as appropriate and would expect that other professional bodies would also be involved.

5.15 The outcome of the Scottish Debate, including any recommendations, should be to identify areas of agreement on reform that can be taken forward with consensus in the Scottish Parliament, and areas of disagreement that can be put to the electorate at the appropriate time.

## **6. ISSUES AND PRINCIPLES FOR IMPLEMENTING THE STRATEGY**

6.1 At this stage we think it inappropriate to offer detailed ideas on either the nature of, or process for, implementing the strategy. We recognise that many others need to be engaged if it is to develop to reality. Equally, there are some general principles that we think are 'self-evident' i.e. they need to be considered in taking forward discussions with all relevant parties.

6.2 First, the debate should be wide ranging, covering all aspects of public services, not just administrative boundaries or structures. Second, judgements, comparisons and recommendations should be evidence based. Third, the views and conclusions of the strategic group overseeing the debate should be reached by consensus.

### **Issues**

6.3. Local authorities will need to develop a range of innovative responses to manage through the next Spending Review. We intend to publish fuller guidance on this theme in 2010 covering the following issues:-

- Efficiencies
- Intelligence
- Transformational Leadership and Excellent Management

- Shared Services
- Citizen Focus
- Pay Strategy
- Charging Strategy
- Review of National Policies Against Outcomes
- Policy Connectivity
- Scrutiny
- Valuing Employees

### Efficiencies

- 6.4 Local authorities have established efficiency regimes and have made great progress in driving efficiencies over recent years: between 2005-06 and 2008-09, Scottish local government delivered cashable efficiencies of £726.9m, against a target of £501.7m. This process needs to continue and cover all public bodies.
- 6.5 Efficiencies alone will not deliver the level of savings required. There will also need to be decisions on relative priority between services to be provided by the public purse, encompassing the whole of the Scottish public sector. These decisions will ultimately require to be made by politicians. To inform such decisions we are already working with our partners to develop meaningful benchmarking as recommended by the Local Government & Communities Committee<sup>(2)</sup>.

### Intelligence

- 6.6 Developing more robust benchmarks of efficiency and productivity will be central to delivering efficiencies. Local authorities need to benchmark their costs and productivity against the best in class to ensure that the greatest possible efficiencies are being achieved. We are working with our partners to develop such measures.

### Transformational Leadership and Excellent Management

- 6.7 The challenges facing councils and the rest of the Scottish public sector over the next few years will require highly skilled, visionary leadership from senior officers/officials as well as politicians. Good practice in partnership working and positive organisational behaviour will be important factors in successfully managing change.

### Shared services

- 6.8 Local government has already achieved considerable success in driving and delivering Shared Services: Scotland Excel, and the myjobscotland recruitment portal are both successful examples of national aggregation within local government. There are also numerous examples of local, cross-sectoral integration, which are not always badged as 'shared services': e.g. CHCPs.
- 6.9 But shared services will not provide all the answers to efficiencies and should not be seen as an end in themselves. They have played a limited role to date in the efficiency savings delivered by local government in recent years, and the up-front costs can be significant.

6.10 Equally, the pace of change on the Shared Services agenda needs to increase. We recognise a number of areas where shared services could provide further efficiencies, either by working across Councils or by working locally with partner organisations. We are committed to working with our partners in Police, Fire and Health to develop and implement Shared Services solutions between sectors at the local level.

#### Citizen focus

6.11 The changing context for Scottish public services means that public bodies need to engage service users in the debate. Managing public expectations about levels of service will be fundamental to addressing the challenge of reduced funding. The public need to be empowered to be part of the solution, rather than just the recipient of services.

#### Pay strategy

6.12 Pay restraint is an essential part of protecting services and jobs. There is a need for an agreed forward pay (including pensions) strategy across the whole of the public sector. Engagement with staff and Trade Unions will be central to this.

#### Charging strategy

6.13 The debate needs to consider the balance between charging for services and funding them from taxation. There may be scope to meet the cost of some services by charging those who use them rather than through a levy on all taxpayers.

#### Review of national policies Against Outcomes

6.14 Many national policies continue to be defined by input and output commitments. We would emphasise the importance of expressing policy priorities in outcome terms, and would call for national policies to be reviewed within this context.

#### Policy Connectivity

6.15 The distribution of public service funding between different public bodies must acknowledge the connectivity between the range of public services: e.g. the balance between funding hospitals and funding care for the elderly.

#### Scrutiny

6.16 Strategies to manage through the next Spending Review must encompass the scrutiny landscape as well as the service delivery landscape. Despite efforts to streamline it, the scrutiny landscape remains too crowded. Giving councils more freedom and flexibility is crucial if they are to meet the financial challenges ahead.

## Valuing Employees

6.17 Services need to be delivered by competent, motivated and innovative staff - irrespective of how they are delivered in the future.

## **Principles for public service reform**

6.18 We believe in the old adages 'Form Follows Function' and Structures follow Strategy. Therefore, any proposals for structural reform of Scottish public services must be predicated on a robust case and a clear set of fundamental principles including:-

- Democracy
- Accountability
- Localism
- Outcome Focus
- Financing
- Evidence

## Democracy

6.19 The democratic nature of local government is of inherent value in the delivery of public services. Local democratic oversight should be central to the delivery of local services.

## Accountability

6.20 A related principle is that of accountability; another defining characteristic of local government. Communities should be able to hold service deliverers to account.

## Localism

6.21 Any structural reform proposals should be based on local needs, geography, population, and the shape of other public service structures and functions. We must build on the investments already made by all public bodies in Community Planning.

## Outcome Focus

6.22 Any review should be predicated on improving service delivery to local communities. Proposals for reform should be outcome-focused, and governance should not be a barrier to reform of public services.

## Financing

6.23 Any review should explore the financing of local services, in particular the balance between the proportion of revenue raised locally through taxation and that received through central sources. Accountability, local fiscal autonomy and central direction are key issues here.

## Evidence

6.24 Past experience attests to the fact that re-structuring is expensive, disruptive and invariably does not realise the cost savings anticipated. Restructuring can make it difficult to distinguish between service cuts and real cost savings. It is self-evident that any proposals for structural reform of Scottish public services must have a strong business case and be underpinned by robust evidence.

## **7. CONCLUSIONS**

7.1 This paper sets out our views on the current issues facing public services, especially in Scotland, and proposals for dealing with them. Our main conclusions are:-

- ❖ There is a need for a wide-ranging debate on reform of public services in the UK and Scotland. This needs to cover all parts of the public sector and recognise the diversity of Scotland's communities.
- ❖ The distinctive role of local authorities, as elected and accountable public bodies, needs to be recognised in this debate.
- ❖ The debate should cover all aspects, not just structures, of public services including functions, governance, finance, and models of delivery
- ❖ Any strategy for public sector reform needs to provide a means of dealing both with immediate financial pressures and with longer term aspirations to achieve sustainable public services at affordable levels in Scotland.
- ❖ While greater efficiency will be a necessary component of such a strategy, it will not be sufficient and other measures will be required, including a review of policy priorities.
- ❖ Public service reform should be based on a clear and agreed set of principles if it is to be sustainable.

SOLACE (Scotland)  
10 February 2010

Source (1): After the Downturn – managing a significant and sustained adjustment in public sector funding - CIPFA/SOLACE Paper published December 2009

Source (2): Report on Local Government Finance Inquiry ; Local Government & Communities Committee of Scottish Parliament ; SPP Paper 377