

The Independent Budget Review

A Submission by:

**The Chartered Institute of Public
Finance and Accountancy**

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CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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1. EXECUTIVE SUMMARY

The Independent Review Panel's Initial Call for Contributions paper set out the scale of the public expenditure challenge in Scotland, stating that spending was expected to contract very sharply after a number of years of very strong growth. That assessment is consistent with CIPFA's fiscal review both pre and post Budget 2010. **(paras 2.1-2.2)**

CIPFA considers that a radical response is required and we advocate three strategic options for radical change to public service delivery in Scotland. The options, for which we set out a series of recommendations, are:

- a redefinition of the relationship between the state and the individual. This option requires a radical review and reconsideration of the services provided by the state, the people to whom they are provided and the way in which they are funded **(paras 3.3-3.6)**;
- a significant layering of the public sector with many more decisions taken locally with minimal oversight. This option takes the view that if deep cuts in public services are necessary it is best to make many of these difficult decisions at local level where they can have regard to the local needs and circumstances **(paras 3.7-3.10)**; and
- a major initiative to maximise economies by much more effective collaboration between public bodies. Efficiency programmes to date have focused on improving efficiency within public bodies. Relatively little has been done to drive out inefficiencies between public bodies or across public services as a whole. This raises the challenge for more effective 'horizontal' collaboration between public bodies whether national or local and implies greater use of shared services or by initiative such as 'Total Place' **(paras 3.11-3.14)**.

In Scotland, reliance cannot now be placed solely upon the tried and tested approaches to budget reduction and to achieving efficiency gains. Many of these approaches require now to be developed in a different direction and the pace of reform requires to be accelerated to generate the extent of budget correction that is required. **(paras 4.1-4.18)**

2. INTRODUCTION

- 2.1 CIPFA is pleased to submit comments to the Independent Budget Review Panel. The work of the Review Panel is being undertaken at a time when an unprecedented scale of reduction in public service funding is expected. The papers provided by the Review Panel make it clear that public spending cuts are unavoidable. That is consistent with the analysis that CIPFA has carried out.
- 2.2 In advance of the Independent review, we undertook a fiscal analysis which identified that total managed expenditure was likely to rise to 48% of GDP in 2009/10 a level not seen since the 1970's.¹ Public sector net debt was predicted by HM Treasury to rise to 77.7% on national income in 2012/13. From this we developed two scenarios in which cuts in public expenditure ranged from 7.5% to 15%. The 2010 Budget Statement² has confirmed that significant spending reductions will be required to rebalance the budget although 2009/10 borrowing is lower than expected. Our scenarios therefore continue to be relevant and realistic and our submission is based on that premise.
- 2.3 Different and radical thinking is now required. The level of radical thinking required means that politicians and public service managers will be faced with decisions which will result in future services almost certainly being restricted or even withdrawn.
- 2.4 What will be required at the outset is a determination by political leaders and local decision-makers to consider all options. This means that a fundamental starting point should be that all front line services are the subject of objective review and challenge. It should not be a pre-condition that some services are protected. Evidence indicates that the consequences of protecting certain services would be disproportionate cuts on other services³. Indeed further recent evidence tells us that higher spend does not mean improved services⁴.
- 2.5 We have set out three strategic options to demonstrate what degree of radical thinking is required. We recognise that as well as these wider strategic options, ongoing initiatives for improving service delivery will need to be maintained and we consider those initiatives to identify what more requires to be done in Scotland.
- 2.6 What is required is a clear prioritisation at both national and local levels. One of our strategic options would result in a re-examination of the outcomes contained within the national performance framework. The responsibility for the outcomes between the state and the individual would require to be addressed as the financial climate can no longer afford existing levels of state dependency.

¹ After the Downturn, CIPFA/SOLACE 2009, page 4

² HM Treasury Budget Statement 2010

³ The Scottish Government's Budget Growth Prospects and Budget Options, CPPR, 2009

⁴ Social Work Inspection Agency, Improving Social Work in Scotland 2010, page 6.

3. CIPFA'S THREE STRATEGIC OPTIONS FOR CHANGE

- 3.1 From our fiscal analysis and scenario development, we concluded that public spending cuts at a scale unprecedented in modern times will be required. The cuts will exceed those made in the recession of the early 1990's and during the 1980's. We consider, that unless there is a rapid upturn or, that government chooses to support a higher than predicted level of borrowing, the cuts will be even deeper than those made in the 1970's when the UK government sought assistance from the International Monetary Fund⁵.
- 3.2 Against that background, the type of decision-making required going forward will be of a different magnitude than that of recent times. Public bodies should not expect to manage through the adjustment required by providing the same level and volume of service at a reduced cost. A radical response is required. The three options for change define the extent of radical change required⁶:
- a redefinition of the relationship between the state and the individual;
 - a significant layering of the public sector with many more decisions taken locally with minimal oversight; and
 - a major initiative to maximise economies by much more effective collaboration between public bodies

Option 1: the Relationship Between the State and the Individual

- 3.3 This option requires a radical review and reconsideration of three key variables, the services provided by the state, the people to whom they are provided and the way in which they are funded.
- 3.4 Aimed at reducing spending, existing services could be radically reduced or even discontinued. Some services could be maintained but the population entitled to receive them could be radically reduced in size. The development of this option could lead to a 'core' and 'options' approach to some public services in which a core tax funded service is provided free at the point of delivery. Additional services or service enhancements would be subject to user charges. A key challenge under this option is to help people to do more for themselves and reduce the areas in which the state is the provider of last resort.
- 3.5 The role of Government would be to manage equity by defining and specifying the guaranteed minimum core service to which everyone would be entitled. This could be applied say to health and social care but the view could be taken that there is a less compelling argument to define a core service provision for leisure services
- 3.6 Alternatively the core and options approach could focus upon the responsibility of the citizen and consider whether user charges should be applied to individuals whose life style choices have led to self inflicted conditions.

⁵ After the Downturn, CIPFA/SOLACE 2009, page 8

⁶ After the Downturn, CIPFA/SOLACE 2009, pages 9 -12

Option2: De-Layering of the Public Sector and Reducing Oversight

- 3.7 This option takes the view that if deep cuts in public services are necessary it is best to make many of these difficult decisions at local level where they can have regard to the local needs and circumstances. For it to have practical effect, local public bodies must have the flexibility to make judgements about the public services which are right for their area. This means a shift from the uniformity of national prescription and targets to differing service offers and standards in different communities.
- 3.8 This brings into sharp focus the respective roles of national and local government and agencies. Questions which then arise are:
- what are the defining characteristics of services which must be managed by national and local agencies?
 - on what basis should government determine responsibility for other services?
 - what is the appropriate role for government in relation to locally managed services?
 - in what circumstances is value for money likely to be maximised?
- 3.9 This option takes the stance that local is best and that local bodies should be allowed to operate within an economical framework in which national oversight, inspection, target setting and performance measurement are limited to levels which are essential for effective service delivery. The default option should be local with reliance upon local accountability rather than national oversight to highlight shortcomings.
- 3.10 Fundamental to this is that the existing machinery of oversight of public services is reviewed to understand better where critical value as opposed to mere comfort is added. This applies to external as well as internal oversight. We acknowledge the recorded reduction in corporate scrutiny in the local government sector since 2007⁷. The findings of Professor Lorne Crerar in his independent review of public service scrutiny⁸ continue to be of relevance, in particular his opinion that he was "...in no doubt that we need a more efficient, consistent and transparent assessment of public services..." Professor Crerar's 42 recommendations, proposed a substantial reduction in the burden experienced by providers that, in the longer term, would reduce significantly what he considered to be an unnecessarily over-crowded landscape. What Professor Crerar proposed was radically different from current arrangements and could eventually lead to the creation of one single scrutiny body. Overall, progress has been made including the joint approach to scrutiny⁹. There are no proposals as yet however for the creation of a single scrutiny body. Judgement will be required at a later point to determine whether the joint approach is reducing the burden sufficiently or whether it will be structural change which will achieve the scale of reduction required.

⁷ Scottish Government, Correspondence to Controller of Audit October 2009

⁸ Independent Review of Regulation, Audit, Inspection and Complaints Handling of Public Services, Professor Lorne Crerar

⁹ Scottish Government Response to Crerar Review, January 2008.

Option 3 Better Horizontal Collaboration

- 3.11 This option is predicated on the assumption that the complexity of UK public sector structures and the prevalence of silo thinking leads to significant inefficiencies. Efficiency programmes to date have focused on improving efficiency within public bodies. Relatively little has been done to drive out inefficiencies between public bodies or across public services as a whole. This raises the challenge for more effective 'horizontal' collaboration between public bodies whether national or local and implies greater use of shared services or by initiative such as 'Total Place' (which we consider later in this submission).
- 3.12 This is not an easy option. In many cases public bodies work together for reasons other than efficiency and do so with conspicuous difficulty. At worst the actions of one body may impact adversely on another. This however makes the case for more effective collaboration more compelling. If all public bodies are to be engaged in the business of making cuts in services for a protracted period it is absolutely imperative that they are working closely together with a shared determination to deliver the best possible outcomes for communities.
- 3.13 The creation of linkages and development of close collaborative relationships between bodies which have no history of joint working, raises the hope that not only will cost be reduced but that innovation can be unlocked. For example, service redesign around the needs of shared clients.

Taking the Options Forward

- 3.14 Government and local decision makers now require to consider these options and take the necessary action.

Recommendation: CIPFA recommends that:

- a clear and explicit overarching policy on the offer of services by the state to the individual should be developed (**para 3.3**);
- national and local leaders should examine and consider how to implement the core and options approach (**para 3.4-3.6**);
- government should develop a clear policy in relation to the work of national and local government agencies. It should explain how and by whom decisions will be taken to vary current arrangements (**paras 3.7-3.8**);
- government should develop a clear policy for arrangements for oversight of locally managed services (**paras 3.9-3.10**);
- leaders of public bodies should prepare clear plans to empower front-line staff, removing layers of management and reducing the costs of supervision within local public bodies (**para 3.10**);
- government should develop a clear policy on collaborative arrangements between public bodies (**para 3.11**);
- local leaders should work with existing partners to increase the urgency and consider new alliances for partnership working (**paras 3.12-3.13**);

4. IMPROVING PUBLIC SERVICE DELIVERY IN SCOTLAND

4.1 We recognise that the options for strategic change will represent major decisions for Scotland's policy makers. We also recognise that radical policy shifts are best based upon evidence, when available. This part of our submission considers a selection of operational efficiency initiatives north and south of the border which will be of interest to the Panel.

Putting the Frontline First

4.2 Putting the Frontline First was a report from HM Government setting out how to deliver better public services for lower cost¹⁰. Arising from the report a Task Force was formed, of which CIPFA was a member. The Task force was formed to identify the decisive steps to be taken in relation to front line services in England¹¹. The report from the task force concluded that no longer should reliance be placed upon the status quo and upon tried and tested approaches to reduce budgets. The task force identified ten specific strategic actions:

1. a coordinated approach centred on the customer to transforming, sharing and reshaping front and back office services;
2. Taking a 'Total Place' approach to secure outcomes for the customer which maximises value for money;
3. Improving processes, systems and practices to ensure new services are efficient and designed for the customer;
4. Have data to understand performance and share and benchmark this information against others to identify areas for increased efficiency;
5. Collaborate with others on the procurement of technology, goods and service provision;
6. Improve asset management when sharing services and considering organisational structures;
7. Understand the work force and how to get the best out of them;
8. Ensure that the leadership capacity and skills needed are in place and there is engagement with communities and frontline staff;
9. Have in place the most efficient management layers and structures; and
10. Consider how specialist skill sets can be shared across your partner's organisations and ensure staff are able to be flexibly deployed.

4.3 Some of these identified key actions above were featured within the efficient government workstreams introduced by the previous Scottish Executive¹² and continue to be progressed. We have selected three of the above ten actions, Taking a Total Place Approach (2), Understanding Performance and Benchmarking Against Others (4) and Improving Asset Management (6) for further commentary in this submission.

¹⁰ Putting the Frontline First: Smarter Government, HM Government, 2009

¹¹ Putting the Frontline First, Meeting the Local Government Challenge, DCLG, 2010.

¹² Building a Better Scotland: Efficient Government, Scottish Executive, 2004

Taking a Total Place Approach

- 4.4 Total Place is a mapping exercise in 13 pilot areas in England. All agencies providing services locally, are involved with a focus on cross-cutting policy areas such as children's health and wellbeing. Data is pooled to identify exactly how public money is spent and to identify how it could be used more effectively in the area.
- 4.5 The report by HM Treasury and Department for Communities and Local Government¹³ stated that "...there are real service improvements to be made..." Total Place has relevance to all three strategic options set out in Section 3.
- 4.6 Birmingham Total Place Pilot has reported separately¹⁴. The Birmingham City Council budget for 2008/9 was £3.66B and when the Primary Care Trusts budget of £1.92B was added to Police, Arts Council, Job Centre and others the overall spend reached £7.5B. A summary of the reported key findings and challenges are:
- Radical alignment of what are currently separate strategies and financial plans to re-focus public sector activity to problem prevention would result in a 'Budget for Birmingham' where all public money is allocated in one place to meet the service outcome priorities for that place. This will produce better outcomes for individuals and the places in which they live but at less cost to the public purse;
 - To deliver accountability of how public money is used and outcomes achieved would require change in governance and decision making across the partnership;
 - Limited public funding is recognised and interventions that actually work should be the focus;
 - Services require to be built around people rather than agencies or organisations. To do this a thorough understanding of residents and users is essential in designing cost-effective services; and notably that
 - Present arrangements waste time on front office facilities for different agencies, multiple assessments of users, partial data sharing, separate back office functions such as finance and ICT. Rationalisation is the likely outcome to deliver radical cost savings.
- 4.7 There are clear similarities between Total Place and the proposed Community Budgeting initiative in 2002 by the then Scottish Executive¹⁵. The consultation document at that time stated that the approach reflected the Scottish Executive's "...continuing commitment to improving service delivery and making services more responsive...".

¹³ Total Place: A Whole Area Approach to Public Services, HM Treasury & Communities and Local Government, March 2010.

¹⁴ Birmingham Total Place Final Report, 2010

¹⁵ Community Budgeting, A Consultation Document on Local Services and Community Engagement, Scottish Executive, 2002.

- 4.8 More recently in Scotland, work has been developed on an integrated resource framework¹⁶ (IRF) which is a two year project with four test sites. The development of an IRF would enable delivery partners to be clear about the implications of local decision making on care. Evaluation would provide invaluable insight into how services can be redesigned around the citizen at reduced cost and surely, in the light of the expected budget cuts, the pace of development now requires to be increased.

Recommendation: CIPFA recommends that a Scottish version of Total Place, building on the Community Budgeting work in 2002, informed by the Integrated Resource Framework be introduced (**paras 4.4-4.8**).

Understand Performance and Benchmark Against Others

- 4.9 Performance assessment against others is achieved through benchmarking. It is a critical tool for self-improvement achieved through a systematic comparison of performance and processes in different organisations, or between different parts of a single organisation, to learn how to do things better¹⁷. Its purpose is to continuously improve levels of performance by identifying where changes can be made in what is done, or the way in which things are done with five clear stages of planning, mapping, analysis, action and review.
- 4.10 CIPFA has developed benchmarking infrastructure over a number of years. Our evidence in Scotland is that, despite its recognised importance, benchmarking is not widely used by public bodies in Scotland. That evidence comes from the lack of usage of our services in Scotland in addition to recurring adverse audit comment on Scottish public bodies¹⁸.
- 4.11 In our view, voluntary use has clearly not worked despite that recurring audit comment. The pace of change must therefore be accelerated and requires strong leadership to achieve this. We will separately provide to the Review Panel a practical case study of how benchmarking can be used to achieve more efficient service delivery.

Recommendation: CIPFA recommends that the use of benchmarking becomes a formal requirement of public bodies (**paras 4.9-4.11**).

¹⁶ NHS Scotland Shifting the Balance of Care

¹⁷ CIPFA Benchmarking Guidance

¹⁸ An Overview of Local Government in Scotland 2009, Overview of NHS in Scotland's Performance 2008/9, Audit Scotland; Asset Management in the NHS in Scotland 2009.

Improve Asset Management When Sharing with Others

- 4.12 Asset management was one of the workstreams included in the previous Scottish Government's efficient government programme. It has continued to be a feature of the current government and has seen some progress in recent years. Again the pace of change required is too slow¹⁹. The agenda has moved on and basic asset management must now be taken as accepted rather than being viewed as progress. At a practical level this means that decisions taken on capital investment going forward must be clearly linked to a corporate strategy. All decisions for the investment of scarce public resources should be supported by a robust business case with whole life costs a clear feature. In light of the scale of reduction in capital, the challenge faced is how to finance essential capital investment as well as the revenue financing of assets which will have to be maintained beyond their normal expected lives.
- 4.13 But perhaps more radically, debate is required on whether assets should remain within the ownership of the public sector. Putting the Frontline First concluded that government should focus on the services that it can best provide, the consequence of which is that government should then be more selective about the activities it carries out. Capital efficiencies could be unlocked by managing public assets more effectively and central to this was ensuring that the right ownership structures exist to improve service delivery. Four types of ownership option were identified:
- directly by the state;
 - through cooperatives or other mutually owned vehicles;
 - 'in-trust' entities; and/or
 - Public or private sector business.
- 4.14 The report acknowledges that while some assets should properly remain with the state, there is scope for a new framework to govern which government activities should be managed as a business. The report acknowledges that each model could be appropriate for a different range of public activities and that there are activities which must remain with the state but that there are areas where different delivery vehicles can achieve greater efficiency. To determine the most appropriate delivery route a series of sequential tests are proposed which will enable evaluation of whether an activity should be delivered by the state or through business structures or alternative models such as community owned entities²⁰.
- 4.15 In Scotland we note the joint commitment between the Scottish Government and COSLA to community ownership²¹ and we separately note the practical example in Lambeth Council where the council has constructed and opened a community-led secondary school²². The HUB Initiative in Scotland²³, a programme of the SFT, is representative of the type of shared asset developments which will become essential for public bodies in Scotland going forward.

¹⁹ An Overview of Local Government in Scotland 2009, Overview of NHS in Scotland's Performance 2008/9, Audit Scotland

²⁰ Operational Efficiency Programme Asset Portfolio, Annex A, HM Government

²¹ COSLA/Scottish Government Joint Commitment to Community Empowerment

²² Lambeth Council, Building Schools for the Future.

²³ The Scottish Futures Trust, HUB Programme, Hub Scotland

- 4.16 An area where efficiencies can be obtained and which links funding to efficient asset management is surplus assets. In 2009, the HM Treasury Operational Efficiency Programme²⁴ identified scope to realise £16B. As an indicator of scale in Scotland, in 2008, the certified balance sheets of local authorities in Scotland reported surplus assets held for sale of £500M²⁵. The current economic downturn militates against immediate realisation of this in the short term but nevertheless, provides an indication of what resources are currently invested in assets for which there is no present service delivery potential.
- 4.17 The Scottish Futures Trust (SFT) is well placed in Scotland to develop strategic innovative solutions for implementation at a local level. The Trust stated in its 2009/10 Business Plan that it will "...develop its role as the centre of expertise.." ²⁶. It is in the interest of all parties therefore that progress with the Scottish Futures Trust is accelerated to enable the anticipated benefits and efficiencies of the SFT to be realised at a local level as quickly as possible.
- 4.18 Some of the financing options being explored by the SFT rely upon the borrowing powers of local authorities. In 2008/9, Scotland's local authorities borrowed £1.19B to fund almost half of the capital investment in that year²⁷. Decisions on capital investment by local authorities are taken with statutory regard to the Prudential Code for Capital Finance²⁸. While there is no Scottish or UK Government limit imposed upon the level of borrowing there is a statutory mechanism in place should a limit require to be imposed²⁹. We note however that there is a proposal for the introduction of a form of capital control in the HRA in England & Wales.³⁰ Any similar development in Scotland would of course limit the extent of future use of borrowing powers by both local authorities and the SFT. The SFT will therefore need to look beyond the existing powers of local authorities and assess what further funding options are possible. We have selected and summarised one possible option, tax increment funding, for further consideration. This is set out in the Appendix to this submission.

Recommendation: CIPFA recommends that:

- The SFT recognise the limitation of local authority borrowing powers and examine other means of funding. Tax increment funding is highlighted as worthy of further examination (**para 4.18**).
- the current review of tax increment funding is accelerated and finalised (**Appendix**).

²⁴ HM Treasury budget 2009

²⁵ CIPFA Internal analysis of 2008/9 local authority financial statements.

²⁶ The Scottish Futures Trust 2009/10 Business Plan

²⁷ Rating Review Actuals 2008/9 CIPFA 2010

²⁸ The Prudential Code for Capital Finance in Local Authorities, Fully Revised Second Edition, CIPFA 2009

²⁹ Local Government in Scotland Act 2003, S.35 – S.37.

³⁰ Council Housing a Real Future (Prospectus) Communities & Local Government, March 2010.

Appendix

Tax Increment Funding

This Appendix describes one possible funding option, Tax Increment Funding (TIF). The intention is to demonstrate what possibilities exist on how public improvements could be funded innovatively (refer para 4.18).

CIPFA has examined the Glen Redevelopment Project in Chicago, USA which was funded by a General Obligation Bond to redevelop 1100 acres of land formerly used as a naval base. A new town with commercial retail and sports and leisure facilities is being developed. TIF allows the extra property tax revenue generated by the new construction to be deposited in a fund which is then used to pay for public improvements. When the cost of redevelopment is met and debt repaid the 'ring fencing' of the additional property taxes will be removed and the taxes used anywhere within the local authority area. The TIF will operate for 20-25 years.

The main identified benefits of TIF are flexibility in funding sources for a local authority, public improvements can be created without increasing property taxes to existing tax payers and there is a local solution available for funding economic development in an environment where federal and state support is diminishing. The mechanics of a TIF are that:

- tax capacity is calculated as property increases in value, the increases above the tax capacity are captured;
- the tax increment is calculated multiplying the original tax rate by the captured tax capacity; and
- TIF is used to fund urban renewal, affordable housing and public infrastructure.

At present local authorities in Scotland do not benefit directly from local growth. Business rates collected are pooled nationally prior to redistribution. In a TIF project, the local authority would retain the additional revenue generated.

We understand that the Scottish Government has been exploring in conjunction with COSLA (as part of a joint review of the local government distribution formula), whether it may be possible to incentivise councils to grow their business rate by retaining any additional business rate income that they raise. We further understand that one option being considered is tax increment financing. This review is due to be completed by end October 2009 and will inform the local government settlement for 2011-12, following the next spending review³¹.

³¹ John Swinney MSP, Minister for Finance and Sustainable Growth Scottish Parliament Ref S3W-20294