

**COUNCILLOR JOE FAGAN – WARD 8 EAST KILBRIDE CENTRAL NORTH
LEADER OF THE COUNCIL**

Our ref: JF/CS
Date: 1 February 2023

By email

To: Members of the Scottish Parliament for South Lanarkshire Constituencies and Regions
cc: Members of Parliament for South Lanarkshire Constituencies, South Lanarkshire Trade Unions, Third Sector Leaders, Faith Leaders, Community Council, Local Press

Dear Member of the Scottish Parliament

Budget SOS – Save Our Services

Prior to the Scottish Budget, the Convention of Scottish Local Authorities sounded an unprecedented 'Budget SOS'. Local government came together to declare that council funding was at 'crisis point' and to warn that the failure to properly resource councils would see services significantly reduced, or even stopped, and people pulled into poverty. That Budget SOS was ignored by the Scottish Government.

With approximately 80 per cent of council funding determined by the Scottish Parliament, the decisions MSPs make in the coming weeks will have more bearing on the size of our Council's Budget than those of any Councillor. The cumulative effect of Budgets passed by the Scottish Parliament since at least 2013/14 has been to be drastically erode the spending power of councils, diminishing our capacity to invest in frontline services and depriving our workers and service users of their fair share of public spending.

The Scottish Budget has been condemned unanimously by Council Leaders of all parties in the strongest possible terms. COSLA warned that 'socially harmful' cuts will follow as councils have been left with no room for manoeuvre.

I am writing to all South Lanarkshire Members of the Scottish Parliament to appeal to your conscience, to insist that you to reject real-terms cuts to our Council's core budget and to help us secure a radically improved funding settlement for our area.

The real-terms cuts imposed on Scotland's councils are unethical and destructive and are fuelling social evils in our country today. Councils are being run down by the Scottish Government when our communities need us most. Our capacity to provide lifeline services, help people through the cost of living crisis, tackle inequalities in health and education or rise to the challenge of climate change is all undermined by the Scottish Government's spending policies.

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I cannot be any clearer. This Budget neglects councils and if you vote for it, unamended, you will damage the communities you are supposed to serve.

The long-term under-funding of Scotland's councils must end. The Scottish Budget must be confronted at national level, as at local level, with all the political and moral force we can find together. People's services, people's livelihoods and people's futures depend on it.

Do not ignore this plea for help on behalf of South Lanarkshire Council and the communities who need us.

Scotland's austerity shame – deeper cuts for councils since at least 2013/14

Council services help communities through the multiple crises confronting society – from the climate emergency to the rising cost of living to year-round pressures in health and social care. Local government is also an essential partner in delivering the National Performance Framework and our shared ambitions and resilience priorities with the Scottish Government. Yet our capacity to meet those challenges has been diminished over time by chronic under-funding and it is diminished again by the current Scottish Budget.

In their Local Government Overview last May, the Accounts Commission found that funding to local government had been reduced in real terms since 2013/14. The rest of the Scottish Government's budget had increased over the same period. When exceptional Covid-related funding is excluded, councils' underlying cumulative funding was found to have fallen by 4.2 per cent in real terms. This contrasts with an increase of 4.3 per cent in Scottish Government funding of other areas of the budget over the same period. **Council funding has not risen in line with increases to the Scottish Budget.** You can access the Local Government Overview [here](#).

In their audit of South Lanarkshire Council, Audit Scotland developed this analysis further and found that once ring-fencing and funding for specific policy priorities was accounted for, the real-terms reduction in council funding more than doubled. Their report, accessible [here](#), published in December 2022, stated:

“the Accounts Commission reports that councils have seen their underlying cumulative funding fall by 4.2 per cent in real terms since 2013/14 (excluding Covid-19 funding). Other analysis indicates that when funding for Scottish Government priority areas is removed there has been a real terms reduction of 9.6%. This contrasts with an increase of 4.3 per cent in Scottish Government funding of other areas of the budget over the same period.”

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Under this Scottish Government, councils have been steadily defunded. **The extreme level of austerity imposed on councils, and by extension the communities our councils serve, exceeds any level of austerity imposed on Scottish Budget over the past decade.** The Scottish Government have chosen to balance their budgets by imposing deep and painful spending cuts on councils. This means councils face multiple crises now with little to no room for manoeuvre to sustain services or support our local partners. No other part of the Scottish Budget, so critical to delivery of shared outcomes, has been targeted in this way.

The Budget reality – no real-terms increase this year

COSLA issued a public call for clarity and consistency in the use of Budget information. The Budget SOS campaign demanded an additional £1 billion for councils across Scotland (based on an approximate 6 per cent population share, South Lanarkshire requires an additional £60 million) simply to continue existing services and meet inflationary cost increases. This was based on an analysis of local government's current position and anticipated costs into the new financial year. The Budget currently provides just £71 million in 'new money' for councils across Scotland as a whole, once ring-fencing and existing policy commitments are taken into account.

The First Minister claims the Budget makes £570 million more available for councils to spend in cash terms. I am aware there is also briefing that the uplift in real terms is approximately £220 million. Neither of these figures reflect the true position of local government, as Ministers should know. These figures conflate ring-fenced funds and funding for previously committed policies with general expenditure and do not reflect actual changes in council spending power. Core council budgets – resources available for wages, bills and general supplies and services have increased by just £71 million. This is derisory and will lead to swingeing cuts in public services as a deliberate outcome of this decision.

The Fraser of Allander Institute immediately reacted to the Scottish Budget, prior to the conclusion of in-depth budget analysis by COSLA, and found that even the settlement as presented by the Scottish Government still represents a real terms cut relative to a GDP deflator of 4.9%. You can read their analysis [here](#).

The Scottish Parliament Information Centre released an assessment of council funding yesterday. This is one of the more positive assessments of the Scottish Budget, though researchers concede that there are flaws in the approach they have taken. Even this assessment confirms there is a real-terms cut to core council funding.

On 18 January 2023, our Director of Finance reported that the like-for-like movement in government grant for South Lanarkshire Council in the Scottish Budget was just £4 million. This in no way represents a real-terms increase and falls enormously short of the additional £60 million we believe is needed in South Lanarkshire.

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The extent to which the reality of this Budget has been distorted by the Scottish Government is appalling. Those Members of the Scottish Parliament who repeat these distortions are actively undermining the Budget SOS campaign and our efforts to bring more resources into our area. They are choosing party allegiance over their duty to their constituents. That is morally indefensible when the choices before councils are so grave. **I ask our MSPs to challenge the deceptive and misleading use of Budget information by the Scottish Government, specifically this conflation of discretionary and non-discretionary expenditure.**

You can read the call for clarity and transparency issued by Councillor Katie Hagmann, Resources Spokesperson for COSLA, [here](#). In particular, I ask you to consider the following comments:

“COSLA’s key concerns are not only the socially harmful impact of cuts on our communities, but the way in which Local Government finance has been presented to them. **The messaging is that there is more money for essential services each year despite this not being the case** with councils asking communities about where they want to see cuts and reductions in essential services, like schools, roads, waste collection, child and adult protection, environmental health and social care are to continue to be delivered, every day of every year.”

Councillor Hagmann is an SNP Councillor representing local government as a whole and I would reiterate that there is cross-party frustration with the grossly misleading way in which government spending plans have been presented.

This Budget does not make £570 million more in resources available. This Budget does not increase core funding in line with expected costs or pay claim expectations. This Budget does not undo the damage of previous years. **To be absolutely clear, this Budget is a Budget for cuts, closures and strikes. It would be utterly immoral to pretend otherwise and allow this Budget to pass unamended.**

The Reserves reality – no substitute for core funding

There has clearly been political briefing by Scottish Government supporters suggesting that local authorities hold more in reserve than is necessary. This is not the case and it is frustrating that these briefings have continued after councils have corrected the record. In any event, any use of cash reserves to close a budget gap is a one-off solution. It does not address structural underfunding and is no substitute for a real increase in core council grant.

For your benefit, I wish to set out clearly and factually the Council’s Reserve position. South Lanarkshire Council’s Reserve position is changeable but in our last accounts, the council reported that it held £152 million in useable Reserves. **The term ‘useable’ should not be interpreted as meaning reserves are unallocated and freely available.** Useable reserves are almost entirely allocated for specific purposes, with a sum already identified to assist with Budget pressures as part of our Medium Term Financial Strategy.

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South Lanarkshire Council's useable reserves consist of:

- Uncommitted General Fund: As at 31 March 2022, this uncommitted fund or 'policy reserve' stood at £13 million. This is the Council's only uncommitted reserve and remains so as a contingency set aside for emergencies. Our benchmarking suggests this level is adequate, though it is within the lowest 25% of council 'policy reserves' in Scotland.
- Earmarked General Fund: As at 31 March 2022, this fund contained £109 million of reserves allocated for a whole range of purposes, such as to deliver specific policy objectives and outcomes over multiple financial years. This includes funds ring-fenced for specific purposes by the Scottish Government. Crucially, within the Earmarked General Fund, **a sum of £37 million in Reserves has been identified to assist with Budget pressures over multiple years and this already is part of our Medium Term Financial Strategy.**
- Repairs and Renewals Fund: This £6.5 million fund also contains sums earmarked for specific purposes, including repairs, winter maintenance, upkeep of South Lanarkshire crematorium and the Strategic Waste Fund.
- Insurance Fund: This £1.295 million fund is held as a provision against unpaid claims in areas such as fire damage, public liability and vehicle fleet. Premiums for insurance cover are also paid into this fund.
- Capital Fund: The balance of this fund is £5.7 million and this must be used for capital expenditure, with a number of projects earmarked.
- Housing Revenue Account Reserve: This £16 million fund is ring-fenced for activities associated with council housing stock and it is not available for general expenditure.

As you can see, almost all of the Council's Reserves are committed for specific purposes or are otherwise ring-fenced. South Lanarkshire Council has earmarked £37 million from within Reserves to help balance budgets over the medium term. However, Reserves are a finite resource and, as the Accounts Commission warned earlier this month:

“...reliance on non-recurring reserves is not sustainable in the medium to long term. Delivering recurring savings and reducing reliance on using reserves to fill budget gaps will be key to ensuring longer-term financial sustainability...”

You can access the relevant Accounts Commission financial bulletin [here](#).

Reserves are not a substitute for core funding and the Accounts Commission state that reliance on non-recurring budget solutions is not a sustainable strategy in the medium to long-term. Without increased revenue, the use of limited reserves can only defer permanent savings, it does not remove the pressure to reduce spending.

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I expect our Members of the Scottish Parliament to challenge the myth that councils are withholding Reserves from our Budget Strategies. To the extent that we can, South Lanarkshire already intends to use Reserves as part of a planned strategy we believe meets with the approval of auditors. The overwhelming majority of our Reserves, however, are used for other purposes.

Members of the Scottish Parliament must understand that the term 'useable' in relation to council Reserves does not mean 'unallocated and available for unplanned expenditure', as a company cash reserve might be. I trust you will correct those who continue to misrepresent the reality of the Council Reserve position.

You may be aware of the Council's decision to approve the use of Service Concessions. The benefit to the use of Service Concessions is that unitary charge payments will reduce by £4 million per year and a substantial retrospective benefit will accrue to the Council for one-off use. This will assist with Budget strategies this year and in the subsequent two years, similar in effect to the use of Reserves. Retrospective benefit is however a one-off benefit and is not a substitute for recurring funding, it simply buys the council a short period of time. Using this benefit does not remove the burden of austerity.

The Pay reality – Ministers must take responsibility

Across local government, Councillors as employers want to recognise the enormous contribution of our workforce. They are also acutely aware that public sector workers have endured years of pay restraint that has eroded their salaries by 20 per cent in real terms. Teachers remain in dispute and the SJC workforce, some of whom took industrial action last year, have submitted a pay claim for the new financial year that councils do not have the resources to meet.

I believe the Scottish Budget must account for a substantial increase in local government pay to prevent industrial action later this year. The rising level of legitimate pay expectations cannot be met from within diminishing budgets. The Scottish Government must resource councils core budgets to a realistic level and, if they do not, they must accept that they will shortly face intense political pressure to intervene in a pay dispute.

Scottish Ministers must take their share of responsibility for the council funding crisis and understand the implications of that crisis for local government pay settlements. I hope MSPs will join me in urging the Scottish Government to engage early with trade unions and COSLA on resourcing an SJC pay settlement as soon as possible. **If core council funding is not substantially increased, there will almost certainly be industrial action later this year, and councils will be powerless to prevent it.**

South Lanarkshire's budget gap

Papers presented to South Lanarkshire Council on 18 January 2023 confirmed that the Council faces a residual budget gap of £16 million. This is a residual budget gap because our officials have worked over several months to reduce the budget gap from an estimated £37 million in June - work that is in the context of over £200 million of efficiencies having been delivered in the last decade alone. This budget-setting process remains changeable – one of the most volatile processes in years.

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To close the £16 million budget gap, Councillors have been presented with the outcomes of officer-led service reviews and an assessment of fiscal flexibilities offered to councils by the Scottish Government in lieu of core funding increases. Very few of these options are acceptable to Councillors. We are also considering how to use Service Concession benefit and what an acceptable level of increase in Council Tax would be this year.

Over the following two years, South Lanarkshire Council projects a budget gap of over £54 million. The Scottish Government has disempowered, degraded and defunded local government so that now there are very few palatable savings left to make. I have to warn you that if the Scottish Government does not fundamentally re-evaluate its spending priorities then there are entire service areas local government will have to withdraw from.

Should we reach that point in South Lanarkshire in the next two years – a point other councils such as Glasgow, Falkirk and Midlothian – appear to have reached already, according to media reports, then I will have to be absolutely candid with the public about where responsibility truly lies. **Responsibility for socially harmful cuts will not lie with local councillors placed in an impossible position but with the MSPs who voted to maximise the austerity imposed on Scotland's councils.**

Capital pressures

In previous financial years, General Capital Grant funding from the Scottish Government of around £28 million was provided to South Lanarkshire Council. Since financial year 2020/2021 there has been a reduction in grant and for the coming financial year we anticipate capital grant of £21.207 million (excluding specific funding for pay award, play parks and free school meals). This is a reduction of £6.793 million or 24% on previous levels. This diminished level of funding will continue until at least 2025/2026, therefore the Council has significantly less funding to undertake capital works than in previous years.

Meanwhile, inflationary pressure on capital budgets is massively intensifying. Our Roads and Transportation officials have reported increases in industry prices for some jobs of around 25 to 30%. Housing officials tell us that Construction Industry data regularly references 14% increases. Where possible, efficiencies are sought through looking at different materials which can be used, however that has proved challenging in that last 18 months.

On top of these challenges, ambitious carbon reduction targets are likely to be extremely costly to achieve and there is no additional funding available to meet the climate aspirations set out by the Scottish Government. The transition to net zero in local government is impossible without substantial additional capital expenditure – to articulate ambitious national carbon reduction targets without the resource to deliver them is dishonest.

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Members of the Scottish Parliament should all be aware of the recent report by the Net Zero, Energy and Transport Committee, which concluded that larger, fewer and more flexible funding streams are required for local government to aid the transition to net zero. The lack of adequate capital funding, and a fundamental failure to understand how much additional resource is truly required, will prevent councils from meeting ambitious net zero targets.

Scottish Budget – MSPs must show moral leadership

The purpose of this letter was to highlight the urgency of the Budget SOS and the appalling consequences of the Scottish Budget in its present form. I want to ensure that all South Lanarkshire's MSPs are aware of the following:

- Local government has experienced real-terms reductions in core funding of 9.6 per cent – deeper austerity than the rest of the Scottish Budget, as confirmed by the Accounts Commission.
- The benefits of the Scottish Budget to councils have been grossly exaggerated by the Scottish Government, who are deliberately conflating discretionary and non-discretionary expenditure to obscure real-terms damage to council funding.
- There is no real-terms increase in core council funding this year – as confirmed by SPICe, COSLA and the Fraser of Allander Institute. Fraser of Allander even dispute whether there is any real-terms increase in council funding at all.
- There is no further scope for South Lanarkshire Council to use Reserves to meet current spending pressures, beyond the £37 million already built in to the Medium Term Financial Strategy.
- Increased core revenue funding is required to meet rising pay expectations and substantially increased capital funding is required to meet our Council's investment needs and fund the transition to net zero.

There has been a council funding crisis for years in Scotland and it has deepened to the point that councils must now make impossible decisions about the future of local services and our place in our communities. Successive Scottish Budgets have been engineered to shift the burden of austerity onto local government, demanding deeper cuts in councils than the Scottish Government has been prepared to make in other budget areas.

I have set out in clear and factual terms how the spending decisions of the Scottish Government harm local government and why damaging cuts, with profound consequences for your constituents, could follow if you do not oppose the Budget in its present form.

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South Lanarkshire needs its MSPs to show moral leadership and make it clear that what this Budget does to councils is wrong – and what this First Minister has said about the impact of the Budget on councils is untrue.

Do not ignore the Budget SOS. Do all you can to improve the financial settlement for South Lanarkshire Council and the communities we serve.

Yours sincerely

A handwritten signature in black ink that reads "Joe fagan". The signature is written in a cursive, lowercase style.

**Councillor Joe Fagan
Leader of the Council**