



Independent Budget Review Report

To: All Chief Executives, Main Contacts and Email Contacts (Scotland)

CC: All Chief Executives, Main Contacts (England, Northern Ireland and Wales)

This APSE briefing provides an overview on many of the key issues identified in the Independent Budget Review Group report. The review reported in July 2010 and its recommendations will inform the Scottish Government's spending review for 2011/2014 which will be announced in November 2010. The review identified a range of options which if implemented could close the significant funding gap the Scottish public sector is facing over the period 2011-14 and beyond.

Key issues:

- The review confirms that the resources controlled by the Scottish Government will fall by 3.3% each year over the next four years. There will be a reduction of 12.5% over the period 2011/14 which equates to £3.7 billion.
- The year 2011/12 will be the most challenging with reductions of between £1.7-2.0 billion.
- The report calls for the Council Tax freeze to be lifted as the Scottish Government's ability to fund the freeze is limited.
- The review confirms no public service area should be protected through ring fencing.
- The report suggests that a 2% to 3% efficiency target should be established over the period 2011/14.
- The options on pay policy be explored with the potential of a pay freeze being implemented.
- The employment levels fall in line with the reduction in resources. A reduction of 2.3% to 3.5% should be achieved through natural wastage.
- The report identifies the need for particular universal services to be reviewed in terms of their future affordability.
- The report suggests over the longer term public sector delivery arrangements be reviewed and reconfigured.

1.0 Background

1.1 In February 2010, the Scottish Government announced its intention to commission an independent review of all public expenditure in Scotland. The review was undertaken by a three member panel under the direction of Crawford Beveridge.

1.2 The review reported in July 2010 and its findings and recommendations are designed to inform the debate around the Scottish spending review for 2011/14. This will be announced in mid November 2010. The spending review in Scotland will be conducted in an environment of significant and severe spending constraint.

1.3 The remit of the review was to consider: -

- The implications of forecasts of reductions in public spending in Scotland in the short and medium term.
- The implications of these forecasts on spending programmes with a view to ensuring long term sustainability of public spending in Scotland
- Options for delivering public services within the constrained public expenditure environment

1.4 The review and its findings will inform discussions between interested stakeholders over the coming months with a view to hopefully developing a coherent strategic approach to the Scottish spending review for 2011/14.

2.0 Context for the review

2.1 The review has been conducted in a complex political environment in terms of the new coalition government, the UK emergency budget in June 2010 and a major debt crisis in Europe. In addition, the review recognises that the current/future economic environment is likely to be challenging and the recovery remains at best considerably fragile.

2.2 The report draws upon the Scottish Government's Chief Economics Adviser's analysis which predicts that the resources controlled by the Scottish Government will fall 3.3% on average over the next four years. It is expected that the Scottish Government will experience a cut of £3.7 billion or 12.5%. 2011/12 will be the most severe and will result in a £1.7 - £2 billion reduction which includes the £332 million which was Scotland's share of the UK emergency budget reduction announced in June 2010. The Scottish Government chose to defer this sum to 2011/12.

2.3 The review report also recognises the forthcoming elections to the Scottish Parliament will influence discussions around the options, in terms of the strategic direction of public services. The precise financial implications for the Scottish Government budget for 2011-14 will not be known until 20th October 2010 – when the outcome of the UK Spending Review is announced.

3.0 Approach to the review

3.1 The review group and their report are completely independent of the Scottish Government. It called for contributions in March 2010 and received 97 written submissions from a range of organisations and individuals. This was supported by a round of 37 meetings with stakeholder groups and individuals.

3.2 Given the pressures on time the review report provides a relatively detailed overview of the likely public expenditure outlook in Scotland over the next 10 years, together with a range of options which could be implemented over the short, medium and longer terms in order to deliver the necessary savings. However, it does not provide a coherent strategic response, this being the role of the Scottish Government.

4.0 Outcomes of the Review

4.1 The review reported on the 29th July 2010 and outlined a range of recommendations/suggestions which require debate and resolution over the coming months. The reviews recommendations are organised around the following policy areas –

- Public Spending Environment
- Efficiency
- Remuneration and Workforce
- Universal Services
- Capital
- Shaping the Future

5.0 Public Spending Environment

5.1 The report provides a detailed analysis of the financial climate facing the UK and Scottish Governments.

The review report draws upon the work of the Scottish Governments Chief Economic Adviser and restates –

- The Scottish budget in real terms will contract for six consecutive years from 2010/11
- The Scottish Government expenditure will reduce by 3.3% per year on average in real terms over the next four years. The bulk of the reduction occurring in 2011/12
- The Scottish budget will contract by 12.5% in real terms by 2014/15 compared with 2010/11
- The Scottish budget in 2014/15 will be £4.5 billion below its 2009-10 peak in real terms.

5.2 The review report provides an overview of the Scottish Budget across expenditure areas. In particular the report warns against –

- **Protecting particular public services such as health through the ring fencing of resources.**

5.3 From a local government perspective the report address the issue of Council Tax freeze. This report states if Council Tax is to be further frozen over the period 2011/2014 it would cost the Scottish Government a further £490 million. The report rightly questions the ability to freeze the Council Tax. In the current climate freezing the Council Tax deprives local government of a much needed source of income and an opportunity to generate a degree of funding to support the delivery of local priorities and outcomes. The panel recommended that: -

- **The option of discontinuing the current Council Tax freeze is explored as it is not sustainable in the current/future economic environment.**

6.0 Efficiency

6.1 The review report acknowledges the work of the Scottish Governments Efficiency Programmes. The current Efficiency Programmes are aiming to achieve savings of 2% which equates to £1.3 billion for the period 2008- 11. Local government has the ability to retain the savings in 2008-11 unlike other parts of the public sector. The most recent update suggests that savings could be in excess of this target. With this in mind, the Scottish Government have already committed the public sector to a further 2% efficiency target for 2011/14. To date, there has been no policy decision on the public sectors ability to retain the planned 2%

efficiencies and offset this against budget reductions. The review report suggests the 2% target could be increased to 3%, in order to generate further efficiencies.

6.2 The review report acknowledges that efficiencies in their own right will not close the funding gap in the Scottish Governments budget for 2011/2014. However, the report suggests there is considerable scope to generate further efficiencies through streamlining, simplifying services, outsourcing services, developing shared services, improving procurement and improved attendance management.

6.3 The report makes a range of suggestions including –

- Reviewing the current efficiency programme which allows for savings to be retained and recycled.
- Ensuring that future annual efficiency targets are no less than 2% per annum
- Utilising the provisions of Public Services Reform Act, to further reduce the number of public bodies. All public bodies should be kept under constant review in terms of justifying their purpose, cost and value. E.g. Regular Best Value Reviews.
- Building on the Crerar review into Scotland's systems of regulation, audit, inspection and complaints the scope to merge different scrutiny bodies as part of the simplification programme should be further explored.
- Accelerating the shared services agenda with a specific request that leaders of public sector organisations work to ensure political, managerial and institution barriers associated with the introduction of shared services are addressed with determination and ultimately resolved.
- Reviewing current public sector delivery models incorporating the use of alternative business models including the voluntary/third sectors as collaborative partners, in the delivery of public services.
- Strengthening the work of the Scottish Governments Public Procurement Reform programme by agreeing clear targets for improvement in order to accelerate change and improvement at both national and local levels.
- The Scottish Government taking the lead in exploring the scope to improve to measure and benchmark absence levels across the public sector, with all public sector organisations establishing clear targets for reducing absence.

7.0 Remuneration and Workforce

7.1 The public sector pay bill including pension costs amounts to £15.2 million in 2010 – 2011, this represents 59% of the Scottish Governments Budget. The report recognises that payments to employees in the health sector accounts for 40% of the total, Local Government amounts to 30% with teachers and police accounting for a further 16 % and 5% respectively.

7.2 The reports suggests that given the pay bill forms such a significant part of the Scottish budget, pay levels and the number of the employees needs to be closely aligned with available resources over the short, medium and longer terms.

7.3 In reducing the pay bill, two broad options are available –

- Reduce the average cost per employee (Freezing pay)
- Reduce the number of employees (freeze recruitment, reduce the number of employees)

The report suggests a range of options: -

- Pay Freeze
- Non pensionable performance pay bonus
- Pay cuts

- Pension and Employers NI
- Reductions in the size of the work force
- Recruitment freeze
- No compulsory redundancy

7.4 The report suggests that a balance needs to be struck in addressing the issues identified. The report suggests –

- As part of the need to restrain pay, options need to be explored to freeze pay over the period 2011/12, 2013 – 14 and 2014 – 15
- An immediate recruitment freeze across the public sector be implemented

The report is particularly pointed in terms of: -

- The projected budget for 2011 – 14 implies a reduction in resources to fund the pay bill.
- The current/actual pay bill is expected to rise over the period 2011- 2014 by £2billion if no action is taken.

7.5 In terms of employee numbers the public sector employs 576,700 which equates to 23.3% of total employment in Scotland. Local government accounts for 45% of this total, employing an estimated 270,000 people. The report suggests that current employee numbers are not sustainable and consideration needs to be given to a 2.3% to 3.5% reduction in public sector employment, this would be managed through natural wastage.

7.6 The report recognises the interrelationship between pay and employee numbers and calls for a balanced approach in terms of tight pay awards or freezes in order to offset reductions in employment levels. In terms of employee “head count” the report predicts a potential reduction of 35000 – 60000 posts. The numbers involved are clearly dependant on the public sectors approach to pay strategy.

8.0 Universal Services

8.1 The report recognises that the Scottish Parliament has introduced a range of innovative policy measures which provide for free or subsidised public services on a universal basis. Such measures were introduced in buoyant economic times. A side effect of such measures has been to shift the responsibility from the individual to the state in both service and financial terms.

8.2 The panel considers the Scottish Governments ability to deliver the current range of universal services is unaffordable given the projected financial challenges, and recommends alternative approaches should be considered as a matter of priority. The report identifies options for change which include: -

- **Limiting/targeting free entitlement, reviewing eligibility criteria, and introducing charges as a way of reducing costs.**

8.3 The report looks at a number of areas-

- Concessionary Travel
- Free Personal and Nursing Care
- Eye Examinations
- Free School Meals
- Tuition fees

8.4 The operation of free or subsidised public services on a near universal basis over the past 10 years has benefited a wide range of people. Current demand for universal services raises significant issues of affordability over the period 2011 /14.

9.0 Capital

9.1 The Scottish Government's capital budget fell by £580 million or 15% in 2009/10. Subject to the outcome of the UK Spending review, Scotland's capital allocation could reduce by a further £700 million or one fifth over the next four years.

9.2 In real terms the capital budget will fall by £900 million by 2014 – 2015 or 25% compared with 2010 – 11. As a consequence of the budget reduction the report suggests capital programmes need to be re-prioritised, the procurement of capital projects improved and efforts be made to rationalize public assets in local authority areas.

10. Shaping Public Services

10.1 The report recognises the need to re-shape public services in terms of their form, scope and models. Reference is given to:

- Structure and boundaries

The report also recognises the fact given Scotland's population, it maybe overly well served in terms of the number of organisations. The report recognises the wider reform of the public sector is a longer term policy agenda.

Although, the report stops short, of advocating whole scale restructuring of public services, it does recognise the need to explore new service delivery options which include;

- Third Sector provision
- Social Enterprises
- Mutual Organisations
- Employee led co-operatives
- Strategic Delivery partnerships
- Outsourcing models
- Joint ventures
- Shared Services
- Collaborative delivery between two or more agencies
- Public Trading Companies

The report also suggests that service delivery in the public sector in Scotland is arguably overcomplicated, unduly fragmented and in need of fundamental re-design to address the future needs of a rapidly changing society.

The report also touches upon the need for the outcome based approach to be continued however, for it to be successful there is a need for improvements in the approaches to performance measurement/management and resource deployment.

11.0 Conclusion and Comment

11.1 APSE welcomes the Independent Budget Review Groups report in that it is a positive development which can assist the public sector in managing the financial challenges which lie ahead. Given the constraints on time, the review is a comprehensive study of the difficult public expenditure choices Scotland faces over the next four years. At the core of the report is the key strategic issue, concerning the future form, shape and model(s) of public sector service delivery in Scotland. APSE hopes that the report makes a valuable contribution to current debate and need to restore the sustainability of public finances. The report and its

recommendations allow for a mature dialogue to take place on a range of options for tackling the long term squeeze on public expenditure.

11.2 APSE recognises that the scale of the forthcoming spending cuts could have a devastating effect on the Scottish public sector and local communities. Particular deprived communities could be hardest hit as they are still to fully recover from the recession. Concern has been expressed that the UK government is cutting expenditure too fast and hard and this could threaten the fragile economic recovery particularly in deprived communities, which are highly dependant on the public sector in service and employment terms.

11.3 APSE applauds the reviews recommendation concerning the hypothecation of resources. The current financial climate does not allow for particular services areas to be protected through ring fencing resources. Given the scale of the financial challenge it would be wrong to exempt particular services at this stage in the budget process. All options need to be fully explored, examined and evaluated particularly from a cost benefit basis with a view to securing value for money. APSE does however maintain the view that all public services are valuable.

11.4 Protecting particular areas such as health which consumes 30% of the Scottish Government budget would have a negative and disproportion effect on others notably local government, protecting health could devastate local government service delivery and employment levels.

11.5 APSE welcomes the reports suggestions on Council Tax. The ability of local government to withstand yet another Council Tax freeze in effect caps local council expenditure and restricts its ability to fund services. Councils need to be given a degree of discretion in terms of raising local income to fund vital local services given the financial challenges they face.

11.6 With regard to efficiency Local Government has a record which is second to none in terms of generating efficiency savings. However APSE endorses member views that the the 'low hanging fruit' has now been taken. It is increasingly becoming difficult to not only identify but deliver efficiency savings. The next wave of efficiency saving options are likely to be more complex in political and managerial terms, take a degree of time and may require some form of 'pump prime' investment.

11.7 The report and its recommendations have significant implications for employees working in the public sector in terms of pay and numbers. The loss of up to 60,000 jobs will have a devastating effect on the Scottish economy particularly in deprived parts of Scotland which are highly dependent on public sector employment. Such jobs bring much needed employment to deprived areas, losing jobs on this scale will not only harm the fragile economic recovery but place an even greater demand on public services.

11.8 In order to prepare for the potential reduction in headcount, Councils need to review their workforce development plans in relation to the service areas.

11.9 APSE agrees that over the long term the public sector needs to evaluate how it is currently configured and organised. The report rightly recognises that Scotland is well served by the public sector however its future form and shape needs to be actively considered as part of the wider need to transform and modernise public sector service delivery.

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