



Briefing 10/65 November 2010

APSE briefing on the Scottish Governments Spending Plans and draft budget for 2011/12

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

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

The Scottish Governments Spending Plans and draft budget for 2011/12 were announced on 17th November 2010 by John Swinney, Minister for Finance and Sustainable Growth.

This briefing needs to be considered in relation to previous APSE briefings on the work of the Scottish Parliaments Finance Committee in assessing the efficient delivery of public sector services (10/28) and the recently produced briefing on the Independent Budget Review (10/46) which reported in July 2010.

Key issues:

- The available resources the Scottish Government will have at its disposal will fall by 11% or by £3.3 billion over the next four years
- The resources available to the public sector in Scotland will fall for at least 10 years, it will not be until 2025/26 that spending levels return to current levels, during this period some £39 billion will be lost to the Scottish public sector.
- For the period 2011/12 the Scottish Governments draft budget signals a reduction of £1.3 billion (or £1.8 billion in real terms)
- Capital resources will fall by 800 million or 36% over the next four years. However £100 million is to be reallocated from revenue to capital to alleviate immediate pressures and support existing capital programmes/projects in 2011/12.
- A public sector pay freeze has been announced for employees earning above £21,000, those on less than £21,000 will receive a £250 rise. There is a commitment to introducing a living wage of £7.15 per hour.
- There is a desire to ensure no compulsory redundancy policy commitments are honoured by employers.
- A further round of efficiencies will be required in 2011/12 with a 3% target across the public sector.

Key issues (Continued):

- Local Government will experience an overall reduction of 2.6% in 2011/12. In monetary terms this equates to £286.9 million in revenue and £150 million in capital. However if individual Councils choose to reject the Scottish Governments current offer they could lose 6.4% of their block grant. This could result in even further more savage service reductions and significant Council tax increases
- Local government has retained the bulk of its share of the overall Scottish block grant. For 2011/12 it will receive £11, 548 billion which is less than the £11, 986 billion it received in 2010/11.
- As part of the Scottish Governments offer a further freeze on Council Tax for 2011/12 has been announced with local government receiving an additional £70million in block grant. In addition individual Councils have been asked to agree to deliver a number of national policy commitments. Councils have discretion in terms of accepting the Scottish Government offer.
- Local government will benefit from an additional £70 million which has been transferred from the health service to enable the development and expansion of community/home care.
- The Housing and Regeneration budget has been slashed from £488 million to £393.8 million.
- A commission for the future delivery of public services is being established under the leadership of Campbell Christie

- **Background**

In October 2010 the Chancellor of the Exchequer announced the outcomes of the Comprehensive Spending Review for the United Kingdom. As part of the devolution settlement the Scottish Government is required to prepare its own Spending Plans for the period 2011/14 and produce a draft budget for 2011/12. Spending Plans have been constructed in a complex political environment in terms of the new coalition government, the UK emergency budget in June 2010 and the major debt crisis in both the UK and Europe. The Scottish Government Spending Plans have also been designed against the current/future economic climate facing Scotland, which is considerably challenging and the economic recovery remaining at best fragile. The latest labour market statistics issued in November 2010 provide evidence that unemployment levels in Scotland are increasing. The Scottish Spending Plan and draft budget for 2011/12 draws in part upon the findings of the Independent Budget Review Report and the deliberations of the Chief Economic Adviser's updated report into the amount of resources that will be available to the Scottish Government to deploy across the public sector.

The Spending Plans in Scotland have confirmed that the resource base of the Scottish Government will fall by 11% or by £3.3 billion over the next 4 years to 2010/15. The plans confirm that the period 2011/12 will be the most challenging in that savings of £1.3billion or £1.8 billion in real terms will need to be generated across the public sector. This represents a cut of 6.3% in real

spending power. The £1.3 billion includes the £332 million which was Scotland's share of the UK emergency budget, the Scottish Government chose to defer this to 2011/12.

With regard to capital resources, it was announced that as a consequence of the UK Spending Review, Scotland was required to reduce its capital expenditure by 36% over the period 2011/15.

- **Outcomes of the Scottish Spending Plans/Draft Budget for 2011/12**

A summary of the key policy announcements are given below:-

- **Public Sector Pay Policy**

The public sector pay bill in Scotland amounts to £15.2 billion including pension costs; this represents 59% of the overall Scottish budget. The local government sector in Scotland employs approximately 270, 000 people at a cost of £6.8 billion this is over 50% of the entire local government block grant. Given that pay represents a significant proportion of the Scottish budget changes to pay policy was expected. The Scottish Government wish to introduce a pay freeze for public sector employees; however employees earning less than £21,000 will receive a payment of £250. The proposed pay freeze will be for a two year period and will need to be negotiated between public sector trade unions and the respective employers through the normal negotiation machinery. As part of this negotiation further workforce reform may be required.

In addition, to the pay freeze the spending review will seek to impose downward pressure on the pay of senior personnel and review bonus payments.

It is anticipated that the pay freeze will release savings of £300 million. The Scottish Government contend that these measures will reduce the pressure on public sector head count and preserve jobs.

- **A Scottish Living Wage**

Within the announcement on pay, was recognition that all employees in the public sector should receive a living wage as opposed to a minimum wage. This is welcomed; however, employees will face increased pressures in terms of payments to pensions etc. The living wage is to be set at £7.15 per hour, this has been used in Glasgow City Council as part of their drive to tackle and improve the economic and social welfare of its employees. Through the public sector procurement process it will be interesting to see and establish whether the living wage can be applied to public sector partners/suppliers.

- **No Compulsory Redundancies**

The budget for 2011/12 contains a reference to the need to preserve employment levels within the public sector. Employment levels are considered to be a prerequisite for economic growth.

The Scottish Government through its review have indicated that they would like to see current no-compulsory redundancy commitments honoured by employers. This is a

welcomed development however it will be difficult to deliver given the expenditure constraints, and the need for a further round of efficiency savings.

- **Efficiency Savings**

The Scottish Government will require all public sector organisations to deliver a further round of efficiency savings. Previous efficiency programmes have required a 2% saving. For the period 2011/12 a 3% efficiency target for public sector has been established.

A key part of the need for greater efficiency is the further emphasis placed on public sector procurement. The budget for 2011/12 predicts a further £61 million saving from improved procurement practices, for the period 2011/14 the target is £200 million.

A further area identified for efficiency is selling surplus assets and making optimum use of assets that remain.

In addition, it is anticipated that Sharing Services will start to make a real and tangible contribution to the overall efficiency target and generate savings.

Clarification is required on the issue of local government having the ability to retain and recycle the efficiency savings it generates this has happened in previous years.

The Scottish Government predict that the 3% efficiency target will yield and release a further £800 million. This will be a challenging target as much of the 'low hanging fruit' has now gone.

- **Council Tax Freeze for 2011/12**

The Scottish Government as part of its deliberations announced that agreement has been reached with COSLA Leadership (not individual Councils) on the settlement for local government for the period 2011/12 subject to local government agreeing to freeze Council Tax, fund police numbers, key education and social care policy commitments. The Scottish Government is offering Councils a further £70 million to freeze current Council Tax levels. However, it is a matter for individual Councils to determine whether or not to freeze Council Tax and to accept a proportion of the £70 million.

If Councils choose to set their own Council Tax and forgo the additional grant, they will receive a reduction in grant of 6.4% as opposed to 2.6%. Local Councils are being offered "Hobsons Choice" by the Scottish Government.

- **Local Government Settlement**

The total spending package available for local government in 2011/12 amounts to £11.548 billion. Local Government will experience a reduction of 2.6% in 2011/12 subject to accepting the Scottish Governments offer on Council Tax freeze and the delivery of national policy commitments. If a Council chooses to assert its independence it will receive a 6.4% reduction. This could mean a 15-20% Council Tax increase and reducing service levels.

Local Councils will be required to sign up to a range of specific Scottish Government specific policy commitments if the 2.6% reduction is to be accepted. The Scottish Government offer needs to be accepted by 21st December 2010.

- **Capital Expenditure**

Given the dramatic reductions in capital expenditure it would appear that the Spending Plans have considered the advice from the Independent Budget Review. The Spending Plan and draft budget for 2011/12 has redeployed £100 million of revenue expenditure to capital programmes to support major projects which contribute to sustainable economic growth. An element of this resource will trickle down to local government.

The Spending Plans place an increased emphasis on the Scottish Futures Trust in terms of delivering capital programmes/projects. The Scottish Government propose to invest £2.5 billion of capital into programmes using the non profit distribution method a less costly version than P.P.P.

- **Commission for the future delivery of public services**

The proposal to establish a commission for the future delivery of public services was confirmed in the Spending Plan. Campbell Christie CBE, has been appointed to chair the review, the commission will be tasked with reviewing the make up of the public sector and offer recommendations as to how the sector can be reconfigured, in the medium/longer term.

The review will focus upon:-

- Future provision of public services
- Providing sustainable public services
- Providing public services which deliver positive outcomes
- Examining current structures including roles, functions and service responsibilities.

The formal remit and membership will be announced in the not to distant future. The review will report by June 2011 in order to inform future decisions on the Spending Plans for 2012/13 & 2013/14 which will be announced in September 2011.

The commission may build upon the Scottish Governments Simplification Programme which has resulted in a 25% reduction in the number of public bodies in Scotland.

- **Health**

The Scottish Government through its Spending Plan has been determined to protect health expenditure. The health budget has received the full Barnett consequential of £280 million to its current budget. This has lifted the budget by 2.7% to £10.8 billion. Ring fencing health has clearly impacted on other public sector organisations.

- **Universal Services**

The Spending Plan maintains previous commitments to support particular policy measures including:-

- Concessionary travel
- Free personal and nursing care
- Free prescription charges

This is against the advice contained in the Independent Budget Report.

- **Improved Scrutiny**

The Spending Plan and draft budget identifies the need to continue the improvement of scrutiny in the public sector. Over the next four years a savings target of 20% has been set.

Related Developments

A draft Scotland Bill will be issued in December 2010 by the Scotland Office. The proposed Scotland Bill will enact the Calman Commission recommendations which will transfer fiscal powers from London to Edinburgh including the potential to double revenue powers for the Scottish Parliament.

- **Next Steps/Timetetable.**

The Spending Plans together with the draft budget for 2011/12 will be subject to a consultation and negotiation process with a range of stakeholders. During the period January and February 2011, the Spending Plans and draft budget for 2011/12 will be subject to a scrutiny process through the respective Scottish parliamentary committees. The Spending Plans and draft budget for 2011/12 could either be accepted, amended and or rejected given the minority status of the Government.

In June 2011 subject to the outcome of the Scottish Parliament elections, the Commission for the future of delivery of public services will report. This may inform future spending plans and budgets for 2012/13 and 2013/14.

- **APSE Comment and Conclusion**

APSE considers that the overall budget settlement for the local government for the year 2011/12 is relatively fair given the levels of reduction other Government portfolios will experience. The local government sector's share of the overall grant has been relatively well protected during negotiations between COSLA and the Scottish Government, there is however a revenue reduction of £286.9 million and £151 million in capital. Despite this, local government will still experience significant service reductions and employment loss. If Councils choose to reject the Scottish Governments offer local government could face total cuts of £713 million. This represents a further £462 million reduction in resources if the offer from the Scottish Government is not accepted by local government or individual Councils.

APSE shares the wider local government concern that the spending plans and draft budget for 2011/12 are short-term in nature. It would have been beneficial for local Councils to receive indicative budgets for a three/four year period. This would have enabled more effective strategic planning to take place. It is difficult for local government and individual Councils to plan

effectively over the medium term without any real and meaningful insight into the available resources.

To a degree the Spending Plans and draft budget for 2011/12 are focused on the challenges associated with the forthcoming Parliamentary elections which are only 6 months away as opposed to the future outlook and service needs of Scotland. Subject to the outcome of the election, figures for the financial years 2012/13 and 2013/14 will be issued in September 2011. In many ways the Spending Plans and draft budget for 2011/12 can be viewed as a quick fix as opposed to a long term strategy.

The Spending Plans and draft budget for 2011/12 do not fully explain how the overall budget reduction of £3.3billion will be achieved and realised. This is a missed opportunity as there is a clear need for a credible plan which can put Scotland's public finances back on to a sustainable footing and which also look beyond the regressive themes contained within the UK Spending Review.

APSE also questions the interface between the Spending Plans, the draft budget for 2011/12 and the findings of the Independent Budget Review. It would appear that only three findings have been taken into account namely a pay freeze, the need for further efficiencies and the importance of capital. The Spending Plans and draft budget for 2011/12 have therefore diminished the value of the Independent Budget Review Report.

With regard to the proposed settlement each individual Council needs to establish the policy and financial advantages and disadvantages associated with the settlement. If Councils agree to a further Council Tax freeze budgets will only be reduced by 2.6%, if Councils reject the the Scottish governments offer and assert their independence they will witness a 6.4% reduction in grant and face Council Tax increases of 15-20% to stand still or alternatively slash services. Freezing the Council Tax clearly undermines the independence and value of local government, individual Councils have until the 21st December 2010 to determine their policy positions on the Scottish Government offer.

With regard to efficiencies, local government has a strong track record. The 3% target for 2011/12 will be challenging, as much of the 'low hanging fruit' has been taken in previous efficiency efforts. The 3% efficiency target for 2011/12 will require the public sector to achieve a further £800 million of savings, Local governments share being approximately £250 million.

Individual Councils now face difficult choices and hard decisions about the future of all their services. Council's ability to generate a further round of efficiency savings of the order of 3% will be challenging without cutting services.

Councils will need to consider undertaking intensive service prioritisation exercises as part of the need to develop and agree new service settlements with their communities. This needs to challenge the current role and service responsibilities of Councils as they go forward.

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