



## Scotland's Public Finances – Addressing the Challenges

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

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

This APSE briefing highlights the key points contained in the recent Audit Scotland report – “Scotland's Public Finances – Addressing the Challenges”. The report and its analysis represent a useful contribution in terms of offering an overview of the strategic issues facing the public sector as a consequence of the downturn in public finances in Scotland.

### Key issues

- The first part of the report summarises the financial challenges facing the Scottish Government and its public sector organisations.
- The report confirms available resources the Scottish Government has to deploy will fall by £3.3bn or 11% to £25.9bn by 2014/15.
- Reductions in budget are considered to be the worst case scenario and are in line with an independent assessment conducted by the Centre of Public Policy for the Regions at Glasgow University.
- Spending levels will not return to their 2010/11 high until 2024/25 subject to economic performance and UK policy on debt reduction.
- Scottish Government Spending Plans will be announced in September 2011.
- The report identifies a number of demand and cost pressures facing the public sector, particularly increasing demands for services, workforce, investment pressures and the number of universal services in Scotland which are free at the point of delivery.
- The report identifies a range of approaches which can be employed to assist organisations in managing with considerably less. Reference is made to:
  - Priority based budgeting approaches.
  - Evidence based approaches to assessing the delivery of outcomes are limited.
  - The limitations of traditional efficiency measures which over the longer term are limited.

APSE has covered the financial challenges facing the public sector in Scotland through a range of briefings including:

- Future delivery of public services in Scotland (11/35)
- Scottish Government Local Government finance settlement (10/73)
- Scottish Governments Spending Plans and Budget (10/65)

## **1. Introduction**

- 1.1 The Audit Scotland report restates that the likely budget reductions bring immediate pressures and challenges which will require public sector organisations to cut expenditure whilst ensuring the long term sustainability of public services. The Audit Scotland report touches upon how public service organisations are meeting the challenges which lie ahead via a study of over 40 public sector organisations.
- 1.2 The report confirms the Scottish Government budget will fall by £3.3bn or 11% to £25.9bn by 2014/15. Audit Scotland confirm that the Scottish public sector will therefore face significant budget cuts and these are in line with the forecasts prepared by the Centre for Public Policy for the Regions (CPPR) at Glasgow University. The future outlook is also addressed in terms of a conformation that it will not be until 2024/25 that spending levels return to levels experienced in 2010/11 subject to the performance of the UK economy and Government policy with regard to managing the level of debt.
- 1.3 The Scottish government are scheduled to publish a detailed spending plan for 2012/12 to 2014/15 as part of its Spending Review in September 2011.

## **2. Cost Pressures in the public sector**

- 2.1 The report prepared by Audit Scotland highlights a number of significant cost/demand pressures facing the Scottish public sector and these include: -
- Demand pressures – the consequences of an ageing population is likely to increase demand for health and social care services.
  - Financial pressures – such as reduced budgets and the continuing need to deliver efficiency savings.
  - Workforce pressures – such as rising pay and pension costs.
  - Investment pressures – such as the affordability of new capital projects.
  - Maintaining assets – such as the rising cost of backlog maintenance and repair
  - Environmental pressures – implications of E.U directives.
- 2.2 The report also touches upon the Scottish Governments current policies with regard to universal public services which remain free at the point of delivery and restates the suggestion that such services should be reviewed in line with the recommendation from the Independent Budget Review Panel which reported in 2010.
- 2.3 A further complication highlighted in Audit Scotland's report relates to the local government sectors ability in the future to deliver a further round of efficiency savings. Efficiency savings have been a requirement in Scotland since 2004 with an

annual requirement of 2% each year. For the year 2011/12 a 3% requirement is expected from **all** public bodies.

2.4 Audit Scotland envisages a further 2% efficiency target between 2011/12 and 2014/15, and considers that there is a substantial and inherent risk with this approach in terms of deliverability.

2.5 The report also addresses the impact of rising inflation on public sector spending power. An inflation rise from 1.9% in November 2010 to 2.9% in June 2011, has dramatically reduced public sector spending power by £267mn. A further point relates to the public sectors ability to generate additional income in that it is constrained by a number of factors. For example, the ability to generate sizeable capital receipts via the sale of assets has been curtailed by the recession. The report also touches upon pressures associated with pay and pension reform.

### **3 Addressing the Challenges**

3.1 The Audit Scotland report also offers information on how some 47 public sector organisations are preparing for the downward pressure on budgets. These organisations were asked for specific information about their planning arrangements with regards to delivering forecast budget savings. In addition, a comment is given on the associated risks.

3.2 The study found: -

- Local government needs to look beyond the short term in terms of taking costs out of services in order to achieve longer term financial sustainability
- Local government needs to develop its understanding of their cost drives particular the need for unit cost measures, in order to measure improvements in productivity. Robust measures are also needed to gauge delivery on outcomes at a local level.
- The need to invest in different approaches with regard to budgeting. The Traditional or incremental method of budgeting being best suited in times of stability. Reference is made to the need for a priority based budgeting approach which focuses on the delivery of outcomes and the contribution services make to their delivery.

3.3 The Audit Scotland report highlights Aberdeen City Councils approach to priority based budgeting as a useful model, in terms of addressing a potential budget shortfall £120mn over a four year period. Such approaches the report argues have the potential to support organisations in delivering balanced budgets, in the face of significant public sector expenditure reductions.

- 3.4 To support the need for savings public sector organisations are reconfiguring their workforce specifically. In terms of reducing the number of posts through either vacancy freeze, natural turnover or early retirement programmes on a voluntary basis. A number of organisations surveyed are now contemplating compulsory redundancies.
- 3.5 Audit Scotland's report stresses the need for careful planning with regard to employee reduction programmes in that significant risks may arise leading to: -
- The loss of essential skills and corporate knowledge
  - Increased pressure on remaining employees
  - Increased sickness levels
- 3.6 The report highlights the potential for movements to joint forms of service delivery through: -
- Working together – Community Health Partnerships
  - Sharing Resources – Shared Services
  - Involving Others – Greater use of the third Sector.
- 3.7 The report suggests more forms of joint working may need to be established in the face of budgetary pressures/cost reduction. An emphasis is placed on partnerships and partnership working in order to reduce costs, particularly when carried out in collaboration with service users as part of the wider personalisation agenda associated with the delivery of social care.
- 3.8 The report identifies the need for greater sharing of services although there is recognition that robust evidence to support such moves is not readily available. This needs to be addressed, if not progress will remain slow.
- 3.9 Reference is made to the reform of procurement in Scotland's public sector with progress on savings highlighted, particularly through collaboration approaches.
- 3.10 On a similar theme the report touches upon the role of third parties in the delivery of services. Reference is made to the use of the private sector, voluntary sector, social enterprises and mutual's. There is a recognition that such arrangements need to be carefully managed with the necessary due diligence carried out in a rigorous manner in order to reduce the risks. APSE has recently produced a report entitled Proof of Delivery – A review of the role of co-operatives and mutuals in local public service provision. The report found there was currently a lack of evidence to support mutuals and co-operatives in a local government service delivery context.

#### **4 APSE Comment**

- 4.1 Audit Scotland's report "Scotland's Public Finances – addressing the challenges" is yet another useful contribution to the analysis on the state of public finances in Scotland over the next 10/15 years.

- 4.2 The report suggests that traditional approaches to generate savings may not be sufficient to meet the cost pressures let alone the service demand pressures facing the public sector. The report suggests public service organisations will need to develop approaches to budgeting which embrace outcome planning and delivery with a strong focus on cost and wider performance management.
- 4.3 The value in effective approaches to workforce development/planning, public sector procurement reform and asset management together with the need for strategies for income maximisation have been promoted by APSE as effective tools to help in managing with less. The APSE website provides briefing papers on these issues.
- 4.4 APSE would signpost members to a recent publication "Avoiding the road to nowhere – transforming frontline service delivery through efficiency and innovation", as a useful guide to assist with the planning and delivery of budget reductions, whilst safeguarding services in the longer term.
- 4.5 APSE has always promoted the use of rigorously analysing the cost of providing services through its highly regarded Performance Network model. Performance Networks is the largest voluntary benchmarking system of its type in the United Kingdom local government sector, with many Councils in Scotland participating.
- 4.6 APSE has recently produced a report entitled, "Proof of Delivery", which found there was a limited evidence base at present to support the view that mutuals and co-operatives could enhance local government service delivery.

**Andrew Spowart**  
**Principal Advisor, APSE Scotland**