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SCOTTISH SPENDING REVIEW 2012/15 AND BUDGET 2012/13

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

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

This APSE initial briefing highlights the key points contained in the Scottish Government's recently released Spending Review for 2012/2015 and the draft budget for 2012/13.

Members of APSE are advised to see a previous APSE briefing 11/49 – Scotland's Public Finances – "Addressing the challenges" and briefings associated with previous Spending Reviews and local government financial settlements.

The Review sets out the budget allocations to deliver the Scottish Governments plans for 2012/15. Related documents cover Pay Policy and the Government's response to the Christie Commission findings and recommendations for public sector service reform.

Key Issues

- The Scottish Government budget is facing unprecedented reductions in line with the UK Governments deficit reduction plan.
- Public Expenditure in Scotland will be reduced by 11% in real terms by 2014/15. An estimated £3bn will be removed from the public sector over the next three years.
- There will also be a dramatic reduction in capital resources amounting to some 36.7%
- Levels of expenditure will not return to 2010 levels until 2026 over this period some £39bn will have been "lost" to the public sector.
- Recent work by COSLA suggests demand pressures could add £2.7bn by 2016.
- Local Government will see a 7% reduction in its resources over the period of the Spending Review. In addition, owing to inflation and demand pressures a deficit of £1.7bn is estimated over the next three years.
- Council Tax will be frozen for a further year, further restricting the ability of Councils to respond to local service demands.
- Capital spend in local government will be reprofiled "to take" advantage of any remaining prudential borrowing opportunities. However, some Councils have limited flexibility.
- The Scottish Government has accepted the key themes of the Christie Commission Report. Their response being built on four pillars. Prevention, local service, integration, workforce development and improving performance. The Spending Review assumes that these reforms with others will deliver savings.
- The Spending Review signals another pay freeze with employees earning less than £21,000 receiving a rise of £250 only.
- The Scottish Local Government Pension Scheme remains intact in terms of no further increase in employee contributions unlike the situation facing other public sector employees.

The Scottish Government and public sector organisations face an unprecedented period of fiscal tightening. This is particularly significant given the year on year growth of 5% over the past 13 years. The Scottish Government have attempted to protect priority areas such as health and capital expenditure which is rightly seen as a major driver of economic growth whilst searching for savings. The Scottish Government has redeployed some £750mn from reserves to capital in order to maintain growth.

In economic terms it seems unlikely that the budget, which is essentially concerned with managing reductions, will insulate Scotland from the world/UK economic chill. However, protecting capital spend is a welcome development. In addition, linking community benefits to procurement and capital spending to ensure local benefits are maximised in terms of apprenticeships and training is welcomed.

Of concern is the settlement for local government and this would appear to be a real pressure point. The local government sector is currently hard pressed not just by the general financial climate, but by demand pressures in the form of increases in requests for service.

There will undoubtedly be further cuts to local authority services particularly given the scope to further generate genuine efficiencies is diminishing. In addition, if the Council Tax freeze is not fully funded, further cuts in service will be necessary.

APSE Comment and Conclusion

The Scottish Government Spending Review 2012/15 and draft budget for 2012/13 has been developed against a sombre economic background of a faltering world recovery, major worries about the Euro zone and the solvency of the European Banking System, The Scottish Government budget figures are dictated by the terms of the UK Spending Review which have sanctioned a real term reduction of 10-11%. The Scottish Government plans to return to local government additional resources passed through the increase in domestic rates, it is hoped this will offset the reduction/size of the predicted black hole of £1.7bn; however such an approach is not without risk, namely the current/future economic conditions facing businesses. Over the past years the public sector in Scotland has delivered some £2.2bn worth of "efficiency savings" which is £673mn over the Scottish Governments target; however it will become increasingly difficult to balance budgets based on anticipated efficiency savings as much of the "low-hanging fruit" within local government has now gone.

APSE is of the view that the local government sector has a track record in navigating itself through turbulent conditions; the future will require Councils to continue to pursue strict budgetary control measures around efficiency, economy and income generation. However, this may require to be taken to a new level with significant pursuit of service redesign initiatives, co-operation on joint working across the public sector, innovation in areas such as renewable energy, rationalisation of space utilisation in estates and reductions in energy usage.

Increasingly, to manage the demand for services and make substantial savings, Council's will need to find a "cure" rather than treating the symptoms. This will involve Councils and their respective Directorates understanding their true cost drivers. APSE believes that

maintaining core capacity and links with the community will be critical to the success of local Councils going forward.

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