

Scottish Governments Spending Review 2012/15 and Draft 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 briefing provides a more detailed insight and examination of the Scottish Governments Spending Review for 2012/15 and draft budget for 2012/13 with specific regard to addressing the implications for the local government sector. It builds on the previous APSE briefing 11/56 which gave an interim overview

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.
- The Local Government sector and individual Councils will have difficult choices and decisions to make, given the flat-line settlement, as no account is likely to be made or given to inflation, a fully funded Council Tax Freeze and the rising demand for services. Councils will therefore need to review services in relation to the funding settlement and plan appropriately.

1.0 Background

1.1 The Scottish government's draft budget for 2012/13 and Spending Review for 2012/15 has been developed and produced against sombre economic conditions in both the

UK and Scottish economies. The Scottish economy is at best experiencing a sluggish economic recovery following a deep and prolonged recession. The recovery is clearly being constrained by events in Europe together with current UK economic policy and practice which centres on the need to dramatically curtail and reduce public expenditure.

1.2 The Scottish government's draft budget and Spending Review has therefore been prepared against the most dramatic reduction in public spending imposed by any UK Government, in recent history. The Scottish government's draft budget for 2012/13 will be reduced by £1.3bn. The reduction is split between revenue and capital, with a revenue reduction of £500mn and a capital reduction of £800m. In addition, in an attempt to stimulate the economy, the Scottish government have switched £100mn of revenue expenditure to capital expenditure. The purpose of this switch is to maintain investment in capital programmes and projects which can aid economic recovery.

1.3 The scale of the challenge is unprecedented, over the period to 2012/2015 the cut in the Scottish government's total spending power in real terms will be over 11%. There is also a cut to capital spending of 36%. These reductions are set against 5% increases year on year, over the period 2000/01 to 09/10 as a consequence of devolution

1.4 Recent analysis shows that it could be until 2025/26 before the Scottish budget returns to its recent record levels as experienced in 2009/10/11. It is forecast that some £40bn will be lost over this time frame.

2.0 Approach by the Scottish government

2.1 The Scottish governments approach to the Spending Review and draft budget has been to focus on a number of different work streams in order to generate efficiency savings.

2.2 The Spending Review will require public service organisations to drive out further efficiency savings. Some £2bn has been delivered to date; this has far exceeded governmental targets set to date. It is likely that further efficiency targets will be set over the course of the Spending Review which builds on the 3% target for 2011/12 for all public sector organisations. It is envisaged that in future such efficiencies will help maintain services in the face of budget cuts. Areas of attention will include

- **Procurement**
A further commitment to reforming public procurement is given. It is envisaged some £300m will be saved over the period 2012/15. (See efficiencies from Procurement Scottish Government).
- **Asset Management**
There will be a drive to maximise capital receipts from the sale of surplus land and buildings. There will be a key role for the Scottish Futures Trust.
- **Innovative approaches to funding infrastructure investment.**
In response to the significant reductions in capital the Scottish Government is exploring ways to fund the countries infrastructure needs. This will be supported by a more rigorous approach to prioritisation and management of capital spend. Local government and individual Councils will be encouraged to use any spare capacity with regard to their ability to borrow money for capital investment via the Prudential Framework, subject to borrowing limits not being exceeded.
- **Freezing Pay and Constraining the Highest Earners**
The Scottish Government will continue to implement a rigid pay policy and retain a firm control over pay which includes: -
- **Freezing Basic Pay**
In addition, they will also maintain a policy of no compulsory redundancy for parts of the public sector (See Scottish Pay Policy). This does not include local government.
- **Simplification Programme**
The current simplification policy and programme will be extended over the life of the Spending Review. This will involve integrating similar organisations in order to reduce duplication and reduce costs. To date, this has delivered a 25% reduction in the number of national, devolved public bodies together with estimated net savings of around £125m, together with estimated net recurring savings of £39m per annum.

3.0 Policy Context

3.1 At the centre of the budget for 2012/13 and the Spending Review for 2012/15 is a commitment to: -

- Supporting economic recovery and sustaining economic growth
- Protecting public services on which people depend and which are most effective in tackling deep seated problems and delivering real benefits and better outcomes for the people of Scotland.
- Establishing competitive advantage through opportunities offered via climate change.

3.2 The Spending Review for 2012/15 in turn takes due cognisance of key Scottish government policies and strategies

- Economic Strategy
- Economic Recovery Plan
- National Renewables Infrastructure plan
- Infrastructure Investment Plan
- Public Services Reform

3.3 Reference is also made to the delivery of key national outcomes on a portfolio portfolio basis: Areas of interest within the Finance and Sustainability and Local Government Portfolios include: -

- Reforming Public Services
- Housing and Regeneration
- Sport
- Equalities and Social Inclusion

4.0 Local Government Portfolio

4.1 The Scottish Government Spending Review maintains that they have reached an agreement with COSLA's Leadership on a number of priorities and outcomes.

4.2 The Spending Review acknowledges the key role the local government sector has to play in the delivery of national priorities and outcomes this being reflected in the 32 Single Outcome Agreements which provide the basis for public service delivery. The Spending Review details the financial settlement for the local government sector in 2011/2012 which amounts to £11,548bn. This reflects a reduction of £440mn compared to 2010/2011.

4.3 The Spending Review for 2012/15 does not give an explicit figure for the local government sector. This will be subject to the normal distribution process which will be subject to consultation with COSLA and the Scottish Government in December 2011.

4.4 In terms of joint working with COSLA's Leadership, the Spending Review indicates that local government will work to deliver key government policies and programmes including commitments in the following areas: -

- National Outcomes
- Council Tax Freeze
- Police – Ring Fence Grant
- Education – Curriculum for excellence, Pupil/teacher ratios
- Social Care – New Change Fund, Free Personal Care

5.0 APSE Comment and Conclusion

- 5.1 The local government sector is likely to be offered a financial settlement which attempts to maintain its 2011/12 level of revenue funding, inclusive of resources to freeze the Council Tax, but with additional resources to maintain teacher employment. From 2012/13 onwards the Scottish Government have indicated it will be honour its commitment to ensure no local authority receives less than 85% of the average per capita support of Scottish local authorities.
- 5.2 Whilst the Scottish Government Spending Review does not reduce the budget for the local government sector in cash terms, this only tells part of the story, as no regard is given to levels of inflation and the demand for local government services, given the recession will clearly reduce the purchasing power of local government. In addition, the national policy priorities with regard to Council Tax freeze, which is likely to be funded at current levels, £70m, police numbers and teacher numbers, in effect ring-fences local resources.
- 5.3 In addition, the Christie Commission suggested the gap between revenue and demand for local authorities will be some £36bn by 2016. Given this situation, the reform highlighted in the Christie Commission will require detailed thought to achieve a “person-centred system”, in the context of rising demand and reduced capacity.
- 5.4 The outlook remains bleak and challenging for local government and individual Councils. The financial settlement will require local government and Councils to invest in rigorous and robust approaches to planning and resource management. From a financial planning perspective, APSE considers that the traditional or incremental approaches to budget setting commonly known as “salami-slicing” may not go far enough, to deliver the required savings. This is compounded by the fact that much of the low hanging fruit has now gone!
- 5.5 Councils will, over the life of the Spending Review, face difficult choices and decisions regarding their future service composition and settlements with their communities.

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