

Briefing on ...

Scottish Budget 2011-12

Introduction

The Scottish Government has published its spending plans and draft budget for 2011/12. This briefing summarises key aspects of the spending plans and the impact on UNISON members.

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The Cabinet Secretary makes it clear in his foreword that this is not the budget he would wish to present. The UK Government is imposing a £1.3bn cut next year, £500m from revenue and £800m in capital spending. He shares UNISON's view that the Con-Dem coalition are cutting spending too far, too fast, at a time when economic recovery remains fragile. However, within these constraints the Scottish Government still has choices to make.

The Scottish Government has decided to set out its spending plans for only one year, despite the UK spending plans for Scotland having been published for three years. These cuts will total £3.3bn over that period, equivalent to an 11% cut in spending in 'real' terms. This is primarily because 2011 is an election year and that is reflected in the spending proposals. The largest elements of the cuts are achieved through a pay freeze and so called efficiency savings of 3% that are simply an across the board cut in all departments.

Pay freeze

The Scottish Government's pay policy has been published early with the budget. It normally comes out in June. It formally only covers a limited number of public bodies, not including most UNISON members who work in local government and the NHS, although it is influential as budgets are predicated on its assumptions. It sets out a pay freeze (a real terms cut) for all staff over £21,000 per annum and £250 for those below that level. It also introduces the Living Wage of £7.15 per hour. There is a welcome commitment to no compulsory redundancies in return for 'flexibilities', although as yet no clear mechanism for achieving this across all the public sector.

A pay cut is the easiest decision for politicians to make in the current financial situation. Pay is the largest element of the Scottish budget and it avoids having to make the difficult and politically unpopular decisions about structural cuts. These have been deferred to the post-election budget and consideration of structural change has been handed over to the Commission on the Future Delivery of Public Services. This body has been asked to report in June 2011.

A pay cut is fundamentally unfair. Inflation is currently 4.5% and price rises on food and energy hit low paid staff the hardest. £250 goes nowhere near this figure. VAT will rise next year, the UK Government wants to increase pension contributions by 3%, and housing and other benefits are to be cut. Public service workers did not cause the financial crisis. It was the corporate bosses, the first to call for public service pay restraint, who awarded themselves 55% pay increases last year.

The Scottish Government adds insult to injury by linking this pay cut to the alleged benefits of a Council Tax freeze. The biggest gainers from this are the wealthiest home owners, with only a marginal benefit to most UNISON members.

Local Government

Probably the most controversial aspect of the budget cuts fall on local government. Overall the settlement is cut by 5.5% in real terms and the reduction in Government spending is made up by a 3% real terms increase in non-domestic rates for large retailers. They are threatening legal action and so the £62m raised is still in doubt, with no obvious plan B.

Councils are given a classic Hobson's choice. A cut of 2.6% if they accept the Government's priorities, or a 6.4% cut if they don't. If any council wanted to bridge the gap with a Council Tax rise they would need an increase of between 15% and 18%. Not an attractive political prospect. This is an effective return to ring fencing and a major attack on local democracy. Councils are being turned into the administrative arm of central government.

The main Government priority is the Council Tax freeze. This undermines local democracy and the shortfall is increasingly being made up by charges for services. This disproportionately hits low income households who rely on council services, yet it is the wealthiest who gain most from this real terms tax cut. The Scottish Government is keen to talk up this tax cut as part of its election strategy, but less keen to identify the services that will be cut to pay for it.

Another priority is protecting teacher numbers, although at a possible longer term price as a consequence of a review of the McCrone Agreement. No such protection for the rest of the education team, other than a commitment to the rather vague outcomes in the Early Years Framework.

The housing and regeneration budget takes one of the largest cuts. Spending falls by £109m or 22%. There will need to be significant 'efficiency' savings and/or rent increases to meet the shortfall.

Councils are already planning budget cuts and job losses over and above this budget allocation due to higher inflation, reducing income, rebuilding balances and demand for services in a recession.

Health

NHS spending has a degree of protection in the budget with a small real terms cut in expenditure. Capital expenditure is cut by 17%. The NHS will still have to find the same 3% cut as other departments through so called efficiency savings and staff will be subject to the same pay freeze.

Indicative allocations to Health Boards, where most UNISON members work, are set out in the spending plans (p120). This indicates a cash increase of 2.7%. However, there are new commitments on prescription charges and social care to be funded. The new social care Change Fund (£70m) will be administered by Health Boards in accordance with a plan agreed with local authorities. The primary aim of this fund is to avoid bed blocking caused by cuts in council social care.

As with local government the real Health Board budget cuts will be greater than these allocations. Real inflation levels will be higher than the notional ones in this budget. Then there is an aging population, new technology and the increasing costs of new drugs, all to be funded from this allocation.

Higher and Further Education

These are amongst the biggest losers in the budget. The sector faces a real term cut of £245m, mostly capital that falls by £120m. However, current spending also falls by 7.6% for FE and 8.1% for HE. Whilst this reflects the HE cuts in England, Scottish universities are funded very differently and the debate over student contributions has effectively been deferred until after the election.

The plans claim that student numbers will be maintained. This appears challenging to say the least given the scale of cuts being imposed on the sector. A recent study of the impact of universities found that they now generate £59 billion for the UK economy, putting the higher education sector ahead of the agricultural, advertising, pharmaceutical and postal industries.

Other lifelong learning also takes a bigger than average real terms cut of nearly 14%. This includes Skills Development Scotland that loses £21m, no doubt further reducing the quality of careers provision.

Utilities

Scottish Water's much publicised borrowing line has been cut completely from this budget, forcing the Corporation to use its surplus cash to fund the capital programme. At best this is a one off solution and in effect the Government is borrowing from future budget allocations. On the positive side it undermines the usual calls from Tory and Liberal Democrat MSPs for the privatisation of Scottish Water.

The Government also published its draft proposals to achieve climate change targets (RPP) and develop a low carbon economy. The plans include support for renewable energy, although the overall energy budget is cut by 20%. The motorways and trunk roads budget is increasing to reflect big projects like the Forth Crossing. National Parks and SEPA budgets are cut. SEPA's 11% cash cut is much greater than the Scottish average with no reduction in demand on their functions.

Police & Justice

Most funding for police and fire services comes through the local government settlement. That settlement requires local government to fund the maintenance of the additional 1000 police officers the Government promised. Giving priority to maintaining police numbers in a declining police budget simply means that large numbers of Police (civilian) Staffs will be cut, with police officers backfilling them. Paying expensive police officers to perform administrative and specialist tasks they are not qualified to do is a waste of public money. It is simply a cosmetic political exercise to keep police numbers up this way when the public rightly expect them to be visible on the streets.

Overall, justice takes the largest departmental cut, down more than 13%. There is a small real terms cut in Community Justice Services (on top of the local government cut) despite the demand to deliver more community services. The prisons budget is cut by over £100m. There is a big cut in central police budgets, including the SPSA. Access to justice will continue to be restricted through increased court fees to compensate for cuts in the SCS budget.

Third sector

Most funding for this sector comes through local government and health. However, the central budget has been cut by 25% in real terms although the capacity budget is increasing by 14% in real terms.

Capital Expenditure

Pre-budget briefing focussed heavily on the likely shift of revenue funding to capital to compensate for the massive UK cut as part of a strategy to support jobs. In reality there is only a modest transfer of funds to capital aided by a carry forward of £100m of under spend from this year. UNISON argued that cuts in revenue spending takes money away from low income households who spend more of their income locally and that is what the economy needs most at this time. Capital expenditure is good for the economy, but more of the economic impact leaks outside Scotland and into the pockets of company directors and dividend payments.

The biggest policy shift in the budget was the re-introduction of PFI. It had never really gone away in health through the Hub Initiative and in schools. However, it is now proposed to use revenue finance to deliver infrastructure investment totalling £2.5bn over the next four years, through PFI administered by the Scottish Futures Trust. It will primarily use the Government's favoured PFI model, the misnamed Non-Profit Distributing Model. Sadly this is anything but non-profit making and will cost the taxpayer £Millions more than conventional finance. The new plan is to hypothecate around £250m of revenue to finance £2.5bn (capital value) of PFI schemes in transport, schools, colleges and the NHS. It remains to be seen if public bodies are given a real choice of funding, but it looks likely that we are to return to "the only game in town" position the last administration created.

Powers will also be brought forward to introduce Tax Increment Financing (TIF) to Scotland using six pilot schemes. This allows conventional borrowing to be repaid through predicted future non-domestic rate revenues.

Conclusion

UNISON believes that the UK Government budget cuts are a savage attack on public service provision. They are cutting unnecessarily and at a speed that will damage the fragile economic recovery in Scotland and across the UK. The budget was also unfair because it impacts disproportionately on those least able to bear it. We hoped that the Scottish Government's spending review would protect public services in a fairer way than the UK budget.

There are some elements of a fairer approach in relation to avoiding compulsory redundancies and the introduction of a Living Wage. However, the pay freeze, undermining local democracy, the Council Tax freeze and big cuts in several departments are clearly unfair. In other areas they have compounded wasteful expenditure such as the re-introduction of PFI, paying police officers to do civilian jobs and teachers to do the work of other classroom staff. The equality impact assessment does little in a practical way to address fairness in areas like equal pay. In addition the Scottish Government is planning to spend £250m on consultants. This is a scandalous waste of resources at a time of budget cuts in real services.

Further information

The full budget documents including the pay policy and equality impact assessment can be viewed at: <http://www.scotland.gov.uk/Topics/Government/Finance/18127>

The CPPR budget briefing highlights the winners and losers from the budget: http://www.cppr.ac.uk/media/media_180521_en.pdf