MSP Briefing

Parliamentary Debate – 9 September 2010

Independent Budget Review

Key Points

- The financial projections, whilst disastrous for public services and the economy, actually understate the scale of cuts in local services.
- There is a credible economic alternative to cuts in public spending.
- The privatisation of Scottish Water would contribute nothing to the capital budget; result in higher bills to the charge payer and transfer control of Scotland's greatest asset abroad.
- Outsourcing will cost more and break up integrated service delivery.
- Shared services will make, at best, only a long term contribution to cost savings.
- It is unfair to ask public service workers to pay for the failure of private corporate folly through pay cuts and reduced pensions.
- Universal provision is more efficient and contributes to a better performing more equal society.
- Cuts at this level and at this time in the economic cycle, will damage the economy and result in huge job cuts in the private as well as the public sector.
- **There is a better way!** At UNISON Public Works and the STUC Better Way websites.

Introduction

This briefing outlines UNISON Scotland's response to the Independent Budget Review that will be debated in Parliament on Thursday 9 September 2010.

Financial Projections

The report does give a clear description of what they describe as "the most challenging public spending environment since the Second World War." Whilst precise figures won't be known until the UK spending review is published on 20 October, they forecast a 12.5% cut in Scottish budgets over four years, that's £3.7bn in real terms. These cuts will be frontloaded with £1.7bn coming in the first year. Capital budgets fare even worse, with a 40% cut of the same period. They don't anticipate a recovery in public finances until 2015-16 and no return to 2009 spending levels until 2025.

In fact this analysis understates the real impact on local services. UNISON Scotland's analysis of planned local budgets shows that councils and health boards are planning much greater cuts than the Scottish budget would indicate. This is because real inflation is likely to far exceed the notional Treasury allowance for inflation (the GDP deflator). Public bodies also face increased demands on services due to the recession and demographic change, plus reductions in income in addition to the Council Tax freeze. Most public bodies are also looking to strengthen their balances in anticipation of worse to come.

Alternative strategy

It is particularly disappointing that the IBR does not question the necessity for these cuts, beyond a brief reference to the evidence submitted by UNISON Scotland and the STUC. They simply add to the myth that that cuts in public spending are both essential and inevitable. The costs of the bank bailout were higher in the UK than any other G21 nation. It is therefore no surprise that the deficit is projected to be the largest of any G21 nation. This public debt is really corporate private debt and it is the price of the massive bail out Britain's banks, not excessive public spending.

The financial crisis has also increased unemployment which raises the demand on social spending and reduces tax revenues, adding to the pressures on public spending. The rising deficit is a response to the crisis; it is not in itself a crisis. Investors continue to fund UK debt. Recent gilt auctions have been oversubscribed and the cost of servicing the debt is currently very low. Cutting public spending now will prolong and deepen the recession. It is purely an ideological, not economic response, to call for cuts in public spending.

Even when it is appropriate to start reducing the deficit, spending cuts will not be the only ways to cut debt. We could introduce a fairer tax system and cut out real waste including PPP schemes, management consultants and Trident.

Sadly none of this is discussed in the IBR report, with the positive exception that the Council Tax freeze is no longer viable. Instead the recommendations are a predictable rehash of the business agenda and the same neo-liberal economics that got us into the financial crisis. For more detail on the economic alternatives please visit the STUC Better Way website.

Scottish Water
The IBR report highlights concerns over the cuts in capital spending. Their solution is the privatisation of Scottish Water, dressed up under the guise of a public interest company. This is a purely ideological recommendation as there is no explanation as to how this would help the budget. It makes no sense to sell off Scottish Water at a fraction of its asset value, only to send the cash to London. Meanwhile, the water charge payer will have to pick up the purchase cost through higher charges and cuts in service. Paris is the latest city to bring its water service back under democratic control. Interestingly, it was privatised under the guise of a public interest company and just two years later production was in the hands of multi-national companies. Back under public control charges have been frozen and profits are flowing back into the public purse. See UNISON Scotland briefing Defend Scotland's Water.

'Real terms' health increase
If the Scottish Government was to pass on the 'real increase' in NHS spending apparently planned in England, then all other departmental budget cuts would increase from 12.5% to 20%. This is often misleadingly described as ring fencing health spending. Few staff in NHS Scotland will recognise this alleged protection, with health boards planning over £200m of cuts and the loss of 4000 jobs. Health spending is much wider than just the NHS and like many other public services there is an interdependency of provision. In health, most obviously with social care and housing. 'Real terms' again does not cover actual inflation, let alone the traditionally higher health inflation rates.

Efficiency and Outsourcing
The report recognises that most public bodies have achieved challenging efficiency targets in recent years. However, they argue that these savings should no longer be recycled but instead treated as a contribution towards the cuts. The report then parrots the tired business agenda with a call for outsourcing and shared services. Not a scrap of evidence is offered in the report as to how this would save money. Privatisation has already led to millions of pounds that could have been spent in the public sector being wasted. Increasingly across the UK and worldwide public services are being brought back in house. APSE has recently published a guide to bringing services back in house. This report shows the benefits of include; improved performance and governance, cost efficiency, flexibility and added value and service integration. For more on in-house provision see this APSE report.

Better co-operation between public services is of course desirable and is already one of the strengths of the Scottish public service model. However, despite the hype, mostly from management consultants and commercial providers, shared services have not provided the answer to more cost effective services. The previous Scottish Government report into shared services showed an investment ratio of 2:1 i.e. an initial investment of £60m is needed to Save £30m.The UK National Audit Office report indicates that so far projects have taken five years to break even and so will make little contribution to the current crisis. Improved cooperation between public service is essential, but this does not require setting up vast call centres or bringing in the private sector. See UNISON Scotland briefing on shared services.

Workforce Issues
The IBR devotes a whole chapter of their report to workforce issues given that pay represents 59% of the Scottish budget. The report does at least give a more balanced picture of the myth that public sector wages are racing ahead of the private sector. None the less they recommend that it is public sector workers that should pay the price for bailing out the bankers. There are a number of options set out in the report from a blanket pay freeze (with or without incremental progression), to some underpinning for the lowest paid. They call for a consistent approach, whilst recognising that this is difficult given the different pay bargaining structures. As we have seen with the recent local government pay debacle, organisations like CoSLA are simply adding to the problem, rather than being part of a coordinated response. On pensions the report is particularly unbalanced, claiming that changes are essential. There is little recognition of the substantial work done in recent years on Scottish public sector pension schemes to address affordability.

Universal provision
The report engages in an extensive dialogue on the issue of universal services. They question free care for the elderly, phasing out prescription charges, concessionary travel and others. The report recommends looking again at eligibility, means testing and user charges - public services should be focussed on "those with the greatest need". Here is the biggest ideological challenge in the report. The Panel essentially supports the UK Government's attack on the welfare state. Using spending cuts as an excuse to reduce public services to a safety net for the poor and disadvantaged on the USA model.

The collective provision of public services is central to this debate. Universalism is less costly to administer, avoids stigmatisation and encourages a higher participation amongst those who need them. But most importantly, they create a more cohesive and more equal society with greater support for redistribution. This is best evidenced in Scandinavian countries that have redistributive tax systems based on universal rather than means-tested benefits. We know from studies including Wilkinson and Pickett that more equal societies do better on almost every measure.

Economic Impact
The report pays little attention to the overall economic impact of the cuts. Taking billions of pounds out of public services, means taking billions of pounds out of the Scottish economy. As well as mass job losses the report recommends years of pay restraint. 70p in every pound spent on public services finds its way back into the local economy. The state recoups 92% of the cost of employing a public sector worker through increased tax revenues and reduced benefits payments.

If implemented this programme of mass redundancies and real terms wage cuts will be a real blow to local economies across Scotland. It is estimated that between 70,000 and 90,000 jobs could go in the public sector across Scotland. The recruitment freeze is already condemning a generation of young people, many of whom have trained for years, to unemployment. By the Treasury's own model this scale of job loss in the public sector will result in almost 100,000 workers in the private sector losing their job.

Conclusion
Sadly the IBR report does not address the disastrous consequences of spending cuts for Scotland. Whilst some of the factual analysis is helpful, the solutions are largely a rather tired rehash of right wing economic orthodoxy. There is an alternative, and we would call on MSP's to champion a better way forward for Scotland.

For further details visit UNISON Scotland's Public Works campaign website.

For further information please contact:

Dave Watson, UNISON Scottish Organiser: d.watson@unison.co.uk Tel: 07958 122409