



**Scottish Government  
Draft Budget 2011-12 and  
the Scottish Spending  
Review  
Response to the Call for  
Written Evidence from  
the Scottish Parliament  
Local Government and  
Communities Committee**

**The UNISON Scotland Submission to the Scottish Parliament's Local Government and Communities Committee November 2010**

## **Introduction**

UNISON Scotland welcomes the opportunity to respond to the call for evidence from the Local Government and Communities Committee regarding the draft budget 2011-12 and the Scottish spending review. UNISON Scotland has over 160,000 members, over 90 000 of whom work in local government. UNISON members pay taxes as well as delivering and using public services and are therefore in a unique position to comment on public services in Scotland.

## **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.
- 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.

## **General Comments**

### **Financial Projections**

UNISON is concerned that there still seems to be little understanding of the current deficit. This means that many people believe that cuts in public spending are both essential and inevitable. The cuts are already impacting on service delivery while demand is increasing. Some 60,000 public sector and 65,000 private sector jobs could go in Scotland because of these cuts. They could cost the Treasury around £500m in lost tax revenue and £640m in increased benefit payments - adding to the annual deficit and almost entirely cancelling out the saving to the public sector pay-bill.

Whilst precise figures won't be known until the Government publishes its spending review and draft budget no one anticipates a recovery in public finances until 2015-16 and no return to 2009 spending levels until 2025 if governments carry on down this path. 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 and cuts in business rates. Most public bodies are also looking to strengthen their balances in anticipation of worse to come.

### **Alternative strategy**

We would hope that the Local Government committee would urge the Scottish Government to adopt an alternative strategy. 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 deficit is really the price of the massive bail out Britain's banks, not excessive public spending. The 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 in contrast to Ireland. The Irish government made massive cuts in public spending very soon after they bailed out their banks. Is the Irish economy stable and growing? No it is in deep trouble. Cutting public spending now will prolong and deepen the recession. It is purely an ideological, not economic response. 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.

### **Efficiency and Outsourcing**

Most public bodies have achieved challenging efficiency targets in recent years. These savings were recycled-now they will be treated as a contribution towards the cuts. There is no evidence that improved efficiency, outsourcing and shared services will save money to meet cuts of the predicted size. Privatisation has already led to millions of pounds of waste. A current example of this in England is the case of Liverpool Direct, a flagship Joint Venture with BT. A recent audit report of this flagship Joint Venture reported that the council could save £23m p.a. by taking the work back in-house. Public Services should be brought back in house because of the benefits; improved performance and governance, cost efficiency, flexibility and added value and service integration. (See *Insourcing: A guide to bringing local authority services back in-house* <http://www.apse.org.uk/publications/order-form/iinsourcing.pdf>).

### **Shared Services**

UNISON believes that improved cooperation between public service is essential, but this does not require setting up vast call centres or bringing in the private sector. Sadly shared services are frequently pushed by private consultants as a way to improve services and save money. They are in fact extremely costly and have high upfront costs. The previous Executive's original report into shared services showed an investment ratio of 2:1 — 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. A new report by the Auditor General for Western Australia found that their shared services project (first highlighted in the Executive's initial report as a successful shared services project that Scotland could learn from) is still not finished seven years from its start. The original cost projection was A\$69million, so far it has cost A\$180million. The promised savings of A\$55million a year now look "unlikely". We should indeed learn from this project: shared services are not providing the answer to modernising public services. Even on the rare occasions where they have been successful the time scale required to rake back the up-front costs mean they could provide no quick fix to the current crisis.

### **Waste**

UNISON believes that the use of private sector consultants is the real waste of tax payers' money. Recent press reports indicate a planned spend of £250m on private consultants and agency staff in the next year. Over £42million has been spent on consultants in the last year by Scottish Local Authorities; Edinburgh alone has spent £6.4million. Edinburgh is now looking at a number of initiatives to outsource a range of public services based on misleading information on privatisation initiatives elsewhere in the UK. The money would have been better spent on delivery.

Scottish PFI/PPP contracts could be costing around £2.1 billion more than conventional funding. That is nearly 10% of the total cost of all Scottish PFI/PPP contracts. It is also close to the entire estimated £2.4 billion cost of 'rent' payments for the use of hospitals and other facilities in all the Scottish NHS PFI/PPP projects. The new Scottish Futures

Trust is merely PFI-lite and will do nothing to stop this waste. We believe a new approach should include:

- Review existing contracts and no new PPP contracts.
- Offer Scottish Government grants for all new capital projects on a level playing field basis irrespective of the proposed method of procurement.
- Give Health Boards prudential borrowing powers and treat capital in a similar way to local authorities.
- Exclude staff from transfer and impose a strengthened PPP Staffing Protocol across the public sector.

A new capital procurement regime should be established now that enables most public bodies to develop essential infrastructure without the expense of PPP.

### **How to improve services and save money**

As well as dealing with the waste outlined above UNISON believes that the best way to improve public services is to involve both users and staff in defining both the problem and the solution. This means listening to service users about what they want and empowering staff to respond. There is a growing body of evidence that shows how real improvements can be made through this type of process. Research has also found that there is a clear link between employee engagement and customer satisfaction in local government.

### **Workforce Issues**

The high proportion of public sector spend that goes on wages has been treated as if this is a sign of waste. The public sector is about service delivery and people deliver services. This may be a higher cost than in some sections of the private sector but it is a person that delivers personal care, educates your child and sweeps the streets. There are a number of calls for a blanket pay freeze (with or without incremental progression), to some underpinning for the lowest paid. It is a myth that public sector wages have outstripped the private sector. Also, public sector pensions are not gold plated. A great deal of work has been done in recent years on Scottish public sector pension schemes to address affordability.

The Scottish Government appear to be briefing that public sector workers will benefit from their council tax freeze. This is particularly galling when the biggest gainers from this real terms tax cut are the wealthiest home owners. What our members and other low paid workers do have to pay is increased charges for the council services they rely on, because that is how most councils are plugging the financial gap.

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.

Part of the proposed pay freeze is to pay for a shift in revenue to capital expenditure, in a claimed boost for jobs. What the Government forgets is that low paid workers spend almost all their earnings in the local economy. Capital expenditure is not nearly as efficient in creating jobs because the benefit leaks away in company profits and dividends, not to mention out of Scotland.

### **Universal provision**

The issue of universal services seems to be under the spotlight. Questions are being asked about the affordability of free care for the elderly, phasing out prescription charges, concessionary travel and others. This is an ideological not an economic

challenge. It is an attack on the welfare state. Spending cuts are 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, it creates 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 will mean taking billions of pounds out of the Scottish economy. 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 around 60 000 jobs could go in the public sector across Scotland. In the current financial year Councils announced plans to shed at least 4500 staff 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 around 65 000 workers in the private sector losing their job. This will lead to increased numbers of benefits claimants.

### **Increasing income**

It is also possible to avoid cuts by raising income. UNISON believes that it is desirable to introduce a more progressive tax system and take strong measures to stop tax avoidance. The PCS estimate that £130 billion goes uncollected, evaded or avoided every year. £4.7bn could be raised every year by introducing a 50% tax rate on incomes over £100,000. These actions may not be within the remit of authorities in Scotland, but ending the council tax freeze is. UNISON Believes the Council tax freeze is depriving local Authorities of much needed revenue and should be abandoned

Using the tax system is far fairer than increasing charges for public services in the way that is currently happening. Increasing charges hurts those on low incomes while the Council Tax freeze benefits the wealthy disproportionately. Band H households are saving on average **£441** per year while those in the cheapest homes (band A) are saving only **£147 a year**.

Campaigners in West Dunbartonshire have highlighted the following charges.

- New service charge of £1 per meal to housebound and elderly residents: a meal a day. **£260 per person a year**
- New charge of £2.50 per trip for pensioners and adults with learning difficulties using day care facilities. **£650 for a person 5 going days a week.**
- New service charge £20 per week (**£1040 per year**) for Housing Support Service clients

The value of your home is a reasonable proxy for your wealth unlike your need for day care. The debate about the future of public services needs to face up to the fact that good services cost money. We need to be mature about how we raise that money in terms of both fair taxation and a fair charging regime that reflects local priorities.

### **Conclusion**

UNISON welcomes the opportunity to respond to this call for evidence. We believe that Scotland can continue to afford to provide excellent services delivered in the public sector.

The current financial crisis is being used by those whose Neo-Liberal market ideology got us into this financial crisis, to reshape public services on the basis of their failed ideology. Cutting public services is not the only ways to cut debt: raising taxes for those who can afford to pay more and clamping down on tax avoidance will also reduce the deficit-as will cutting out wasteful spending including PPP schemes and the use of private consultants.

**Kay Sillars**

Information Development Officer

[k.sillars@unison.co.uk](mailto:k.sillars@unison.co.uk)

**Matt Smith, Scottish Secretary**

UNISON Scotland

UNISON House

14, West Campbell Street,

Glasgow G2 6RX

Fax 0141-331 1203

[matt.smith@unison.co.uk](mailto:matt.smith@unison.co.uk)