

PRESS RELEASE

POST 'PRE-BUDGET REPORT 2009 UPDATE OF – THE SCOTTISH GOVERNMENT'S BUDGET PROJECTIONS UPTO 2013-14

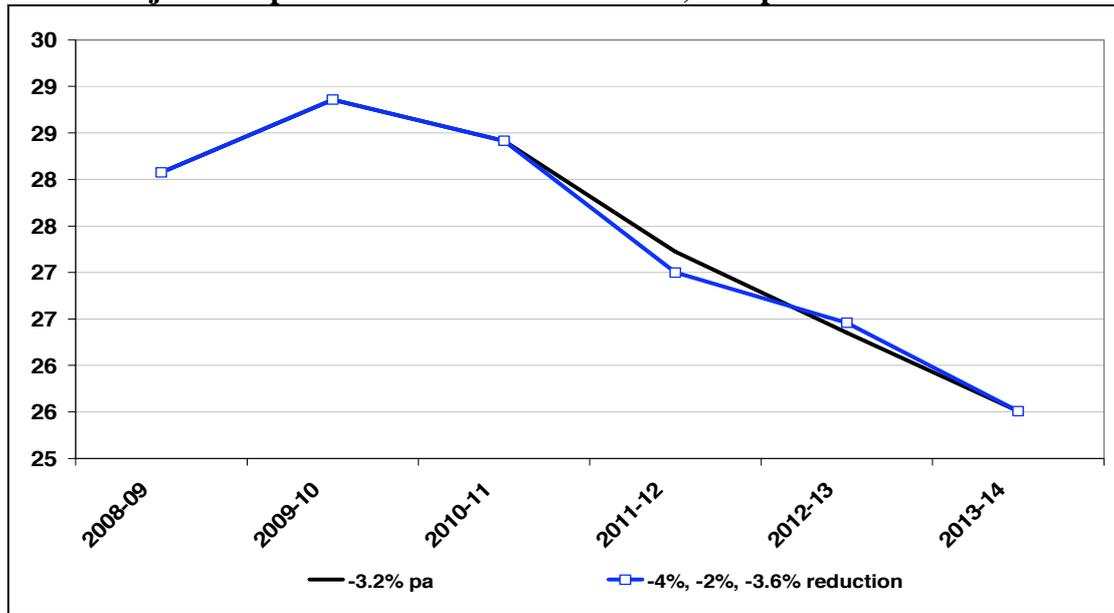
CPPR have today updated their growth projections for the Scottish Government's Budget in light of the Pre-Budget Report 2009 figures for the UK economy and public sector.

- ⇒ Using the IFS's estimate of a 3.2% per annum real terms fall in the UK DEL budget means that by 2013-14 the real terms decline in the Scottish Government's DEL budget over the current figure (i.e. for financial year 2009-10) is projected to be £3.35 billion (see table and chart).
- ⇒ There is currently too much uncertainty to allow for a reliable estimate of the implications for Scotland, via the Barnett Formula, of the protection by Whitehall of spending on health and other areas.
- ⇒ If the % reduction is not evenly spread over the next three years but reflects the uneven reduction implied in the PBR09 report, the cut is more severe in the earlier years; in particular, this could lead to a 5% cut in real terms in 2011-12 over 2010-11.
- ⇒ It is important to remember that any budget reductions facing the Scottish Government following the UK Chancellor's statement will be further compounded by the need to exclude the benefit currently (ie, in the 2009-10 figures) being obtained from previously un-spent funding (ie, EYF monies) of over £300 million.
- ⇒ The scenario shown in Table 1 is similar to our previous scenario A, in terms of the scale of reduction from 2009-10 to 2013-14, which was our most downbeat scenario at the time.

Table 1: Spending by Scottish Government 2008-09 to 2013-14, IFS implied Scenario, £ billion

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	<u>Diff 09/10 vs 13/14</u>	
							£billion	%
Cash	28.1	29.4	29.6					
Real	28.1	28.9	28.4					
<u>IFS 3.2% real reduction pa</u>								
Cash				28.8	28.6	28.4	-1.0	-3.4
Real				27.2	26.4	25.5	-3.35	-11.6

CPPR Projection update – Scottish DEL £ billion, real prices



For further information and copies of past reports, please contact/visit:

John McLaren (07910 333194)

Jo Armstrong (07740 440766)

Richard Harris (07969 697224)

www.cppr.ac.uk

POST PRE-BUDGET REPORT 2009 UPDATE
THE SCOTTISH GOVERNMENT'S BUDGET PROJECTIONS TO 2013-14

This update of the April CPPR Briefing Note takes into account new figures stemming from the H.M. Treasury Pre Budget Report of 2009 and the Institute of Fiscal Studies (IFS) analysis of that Report.

Given the multitude of uncertainties that surround future public finances, the projections shown in Table 1 should be looked upon as a useful guide rather than as a firm prediction.

The revised Table 1 below illustrates the likely profile of the Scottish Budget up to 2013-14, based on initial IFS analysis. It highlights the Scottish Government's likely discretionary spend (largely determined by its DEL (Departmental Expenditure Limit) allocation from Whitehall) over the period up to 2013-14, and includes the extra £23m of funding for 2010-11 from Pre Budget'09 related Barnett consequentials.

The PBR'09 IFS **scenario** shown below has the Scottish budget declining by 3.2% in real terms for 3 consecutive years post 2010-11, although this fall is larger in 2011-12 due to the ending of EYF drawdown.

Table 1: Spending by Scottish Government 2008-09 to 2013-14, IFS implied Scenario, £billion

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Total DEL ¹ (cash)	28.1	29.4	29.6			
Total DEL (real ²)	28.1	28.9	28.4			
Real Growth (%)	-	+2.8%	-1.5%			
Revised DEL 2010-11			29.3 ³			
Revised DEL 2010-11 real			28.1			
Total DEL (cash)				28.8	28.6	28.4
Increase vs 2009-10				-0.6	-0.8	-1.0
Real (inflation adjusted terms)						
Total DEL (real)				27.2	26.4	25.5
Increase (% , yr-on-yr)		2.8%	-1.5%	-4.2%	-3.2%	-3.2%
Increase (% 2009-10)			-1.5%	-5.7%	-8.7%	-11.6%
Increase vs 2009-10			-0.44	-1.63	-2.5	-3.35

Sources: SPICE; HMT PBR'08; IFS

¹ The cash DEL figures for 2009-10 and 2010-11 both exclude £100 million of budget over allocation that has been included in the Scottish Government's totals to make them strictly comparable across all years.

² The appropriate GDP deflator is taken from the Pre Budget'09 Report, table C1. The real terms estimates assume an end year position e.g., the 2009-10 real terms values apply the 2009-10 GDP deflator.

³ The revised 2010-11 DEL baseline has been derived by excluding non-recurring budget amounts of EYF reserves that have already been drawn down for that year, amounting to £303mn. In order to calculate the DEL amount for 2011-12, this revised DEL figure for 2010-11 is the appropriate baseline figure on which Barnett consequentials need to be added.

Pre Budget Report 2009 based projections for Scotland

Table 1 shows that:

- the Scottish DEL Budget is projected to fall in cash terms by £1 billion by 2013-14 from its 2009-10 level
- in real, inflation adjusted, terms this decline increases to £3.35 billion, or over 11%
- the biggest impact will be experienced in 2011-12, when not only will there be Whitehall led cuts via the Barnett Formula, but also the temporary boost from the substantial levels of end year flexibility (EYF)⁴ are likely to end.

Comparison to past projections

The projections in Table 1 are similar in scale to those used in our Scenario A, the worst outcome scenario, from last April.

There are three main reasons for this:

- IFS have amended their previous projections to be in line with the higher DEL cuts implied in the leaked Treasury Budget Report information
- The UK baseline from which cuts are calculated has risen due to extra Defence spending
- The adjustment to the Scottish budget baseline has risen as the EYF support underpinning the current Scottish Budget is now £303 million.

(See Annex A for April's projections based on the Budget Report 2009.)

Implications of spending concessions to particular public services

The impact of the UK Government's protection of spending in areas like health, frontline schools, some policing, overseas development and Surestart on the Scottish budget have not been calculated. To be able to derive the Scottish Barnett consequentials arising from PBR09 requires greater clarity over a number of significant uncertainties, including:

- the lack of definition on what exactly is being protected within a specific budget e.g. on policing
- the limited time periods that this protection lasts for, in most cases just two of the three years under consideration
- the different degrees of protection being afforded by the different political parties who might be in power when they come into force
- the possibility that the Barnett formula might be amended or suspended under the exceptional circumstances that currently exist.

As a result of all of these difficulties these CPPR projections are limited to the straightforward implications of the IFS calculated general DEL cut implied by the PBR'09 data. However, there are a couple of interesting points worthy of further comment.

⁴ See the earlier CPPR Budget Briefing, 2007, for an explanation of the level of EYF support that has been underpinning the current Scottish Budget, http://www.cppr.ac.uk/media/media_54616_en.pdf.

First, the implication of the protection of most of Health, much of school education and some of policing is that, under the current Barnett Formula, this would produce a 'good' result for Scotland as these areas receive close to full Barnett consequentials. Thus Scotland might be relatively protected from cuts, especially if they end up being taken disproportionately from reserved budgets like Defence (although, in practice such Defence cuts could still impact on Scotland, they would not cut the Scottish governments DEL budget). However, the more likely that such an outcome transpires the greater is likely to be the pressure to review the Barnett Formula, at least temporarily.

Second, the size of the annual cuts, as estimated by the IFS are not evenly spread, at -3.2% per annum, but instead are -4/-2/-3.6%. If this comes about it will compound the impact shown in table 1 for 2011-12, already exhibiting the largest cut, and this could end up with a 5% cut in real terms over 2010-11. Hence, instead of the challenges to cutting back budgets growing over time, they will be front-loaded.

Conclusions

The prospects for Scotland's Budget remain grim.

Overall, the Scottish Government now faces unprecedented change in relation to its budgetary future. Such a future may therefore require previously unprecedented changes in policy thinking and funding arrangements in order to steer a way through that limits the impact on the provision of public services.

John McLaren
Jo Armstrong
Richard Harris
(www.cppr.ac.uk)

References

CPPR Briefing Note – The Scottish Government’s 2008 Budget – Update (Nov 2008)

H. M. Treasury Pre Budget Report 2009 (December 2009)

H. M. Treasury Budget Report 2009 (April 2009)

H. M. Treasury – Funding the Scottish Parliament, National Assembly of Wales and Northern Ireland Assembly: Statement of Funding Policy (October 2007)

IFS Green Budget 2009 (January 2009)

IFS Pre Budget Report 2009 briefing notes (December 2009)

Scottish Parliament – Prof. David Bell note to Finance Committee on Pre Budget Report 2008: Effects on the Scottish Government Budget (Nov 2008)

SPICe – Draft Budget 2009-10 (September 2008)

SPICe – Pre Budget Report 2009 (9 December 2009)

ANNEX A

CPPR post Budget 2009 scenarios (April 2009)

Budget	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Difference 09/10 vs 13/14
Cash	28.0	29.7	29.5				
Real	28.0	29.4	28.8				
ScenarioA				27.7	26.7	25.6	-3.8
ScenarioB				28.1	27.5	26.9	-2.5
ScenarioC				28.3	27.8	27.3	-2.1

CPPR Scenarios – Scottish DEL (forecasts for 2010-11 to 2013-14)

