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Topics covered in this issue:

The UK Spending Review 2015

The Gender Pay Gap over time

Recent Fiscal Affairs Scotland Papers

MB/2015/08

The UK Spending Review 2015

The UK Chancellor recently set out the principles underpinning this year's Spending Review (1).

The UK Summer Budget established where the much anticipated welfare savings of £12 billion were to be found, along with £5 billion of anti-tax avoidance measures all of which are aimed at helping the Chancellor's meet his budget target of a small a surplus by 2019-20.

The 2015 Spending Review is therefore aimed at filling the gap that remains of around £20 billion by 2019-20, which is to come from reductions in Whitehall departmental spending (see Table 1).

Table 1: Consolidation plans over the current UK Parliamentary period, £ billion (cash)

	16-17	17-18	18-19	19-20
Discretionary Consolidation (2)	9	20	31	37
• *Of which announced in Summer 2015 Budget*	*6*	*9*	*13*	*17*
• *Of which Welfare Reform from Summer 2015 Budget*	*5*	*7*	*9*	*12*
• *Of which Anti-Tax avoidance from Summer*	*1*	*2*	*4*	*5*
Remaining Consolidation	**3**	**11**	**18**	**20**

Source: OBR, OEF, July 2015; HMT, 2015

It is important to note this £20 billion figure does NOT relate to a cash or real terms cut in the UK Budget (at either the total (TME) or departmental (DEL) level) in comparison to the 2015-16 budget estimate. Both TME and DEL will continue to rise in cash terms and the profile of year-on-year spending changes remains the same as that published in the Summer Budget (see the previous Monthly Bulletin for details).

Rather, the £20 billion figure is the amount that needs to be found, over and above what would naturally occur through the current growth path of UK GDP, to ensure the UK government's fiscal plans are delivered. The UK public sector borrowing is forecast to fall by £80 billion between 2015-16 and 2019-20, with £37 billion of this fall coming from discretionary consolidation.

It should also be noted that the £20 billion figure does NOT include an offset for any higher spending needed in the NHS, Defence etc.

Further contributions to the reduction in UK borrowing might come from cuts to welfare spending (AME), capital spending (CDEL) or departmental resource (RDEL) budgets, or from increases in tax receipts. Given the scenarios outlined in the Spending Review (see below), it is thought they are most likely to come from departmental resource budgets.

The Scottish government has estimated that £1 billion of this £20 billion is likely to be contributed from the Scottish budget. However, as it is not yet possible to estimate exactly what Scotland's Barnett consequentials will be as a result of the Spending Review, then the future Scottish Budget we outlined in last month's Bulletin remains valid.

Spending scenarios

The remaining consolidation will be focused on those departmental spending areas that have not been earmarked as priorities for the UK government (see below for details). Departments are being asked to provide two spending scenarios assuming (a) a 25% reduction and (b) a 40% reduction, in their resource spending by 2019-20. These scenarios will provide the Chancellor with flexibility over where, when and how to deliver the overall savings needed.

Capital spending

The Spending Review will also involve a full assessment of all capital spending plans, in order to achieve the best economic out turns while still delivering on its commitment to invest £100 billion in infrastructure by the end of the Parliament.

Protected spending areas

There are four main areas where the Chancellor has signalled budget allocations will not contribute directly to the consolidation total. Although ‘ring-fenced’ it does not mean these departments are not also facing budget challenges.

Health

The UK government is committed to increasing NHS spending in England by £10 billion in real terms, over its 2014-15 levels, by 2020-21. This is aimed at ensuring that the NHS in England can accommodate rising demand obligations whilst also acknowledging the role played by the delivering of substantial efficiency savings, as outlined in its own 5-year plan. The UK government also expects the NHS in England to achieve a 7-day service by 2020-21, although the cost of this innovation was not included within its 5 year plan.

Defence

The Chancellor is committed to spending 2% of GDP on defence annually and to raising the MoD budget by 0.5% per year in real terms to 2020-21. In addition, it is expected that the MoD will deliver efficiency savings and rationalise its estate and for it to be focused on spending in “the most important capabilities”.

Schools

Per-pupil funding for schools is to be protected, but only in cash terms. Increased efficiencies are also to be delivered through benchmarking against the most efficient in the sector.

ODA

The UK government remains committed to maintaining its spending commitment which is equivalent to 0.7% of GNI (3). However, to maximise the value of this spending the ODA will be expected to introduce competition in service delivery.

Non-protected spending areas

The detail on the future budget allocations for non-protected areas will be the output from the Spending Review. However, there are some pointers worth noting from the Treasury’s guideline paper:

- There is an expectation that central government Administration will continue to deliver efficiency savings even though such spending has fallen by 40% in real terms since 2010. Further savings are expected through the use of digital technology; through estates management (eg, selling off of unnecessary land assets); and increased use of centralised purchasing.

- There is an expectation that joined-up and cross-cutting services will be prioritized, generating better outcomes and delivering efficiencies (eg, the Troubled Families programme).

- There will be a focus on increasing the use of competitive pressure as a means of delivering service quality and savings. This is expected to reform the market that delivers public services, offering greater choice to service users (for example, competing for the provision of non-central prison services is expected to deliver £12 million savings per annum from 2016-17 across the English prisons estate).

- There will be pressure to eliminate duplication across the public sector with an expectation that, where possible, services are integrated.

- Contractual pay progression arrangements across all departments of the UK Civil Service are to be abolished. This is in addition to the Summer Budget announcement that pay awards are to be limited to 1% per annum for the 4 years from 2016-17.

- To maximize the economic value generated from the electromagnetic spectrum, the Treasury wants to see as much of that currently used by the public sector released to, or at least shared with, the private sector. A key driver of encouraging this will be the levying of a market-based fee on all public sector users of the spectrum.

- "What Works" centres across the UK will be invited to provide Treasury with the evidence of the cost effective policy solutions that have previously been implemented and which might have wider application elsewhere across the public sector.

Timetable

The Spending Review timetable is outlined in Table 2. In addition to departments advising Ministers on Spending Review decisions, a Public Expenditure (PEX) committee will also be re-established to provide independent advice to the Cabinet.

Scottish budget implications

How this plays through to the Scottish government's budget will only be clear on the date of publication.

- The protection of the NHS in England and of Schools will be a plus as these have direct positive Barnett consequentials.

- The protection of Defence and ODA spending will have no positive Barnett benefits since these are Reserved areas. However, the review and possible sale of Defence land could have knock-on effects in Scotland, the impact of which are, as yet, unclear.

- The anticipated increased use of competitive pressures and private sector suppliers to drive efficiencies across Whitehall may also have an impact on the Scottish governments' spending power. If, for example, these competitive pressures deliver efficiency savings in England then, unless Scotland's equivalent departments deliver the same level of efficiencies, the Barnett consequentials alone will not provide Scotland with an equivalent level of spending power.

Table 2: High-level timetable for Spending Review 2015

July	August	September	October	November
Spending Review 2015 launched Guidance issued to departments	Departments & Treasury work on spending options External engagement programme	Initial ministerial discussions on the Spending Review priorities & departmental settlements	Ministerial discussions about departmental settlements	Cabinet signs off Ministerial decisions. Spending Review 2015 is published

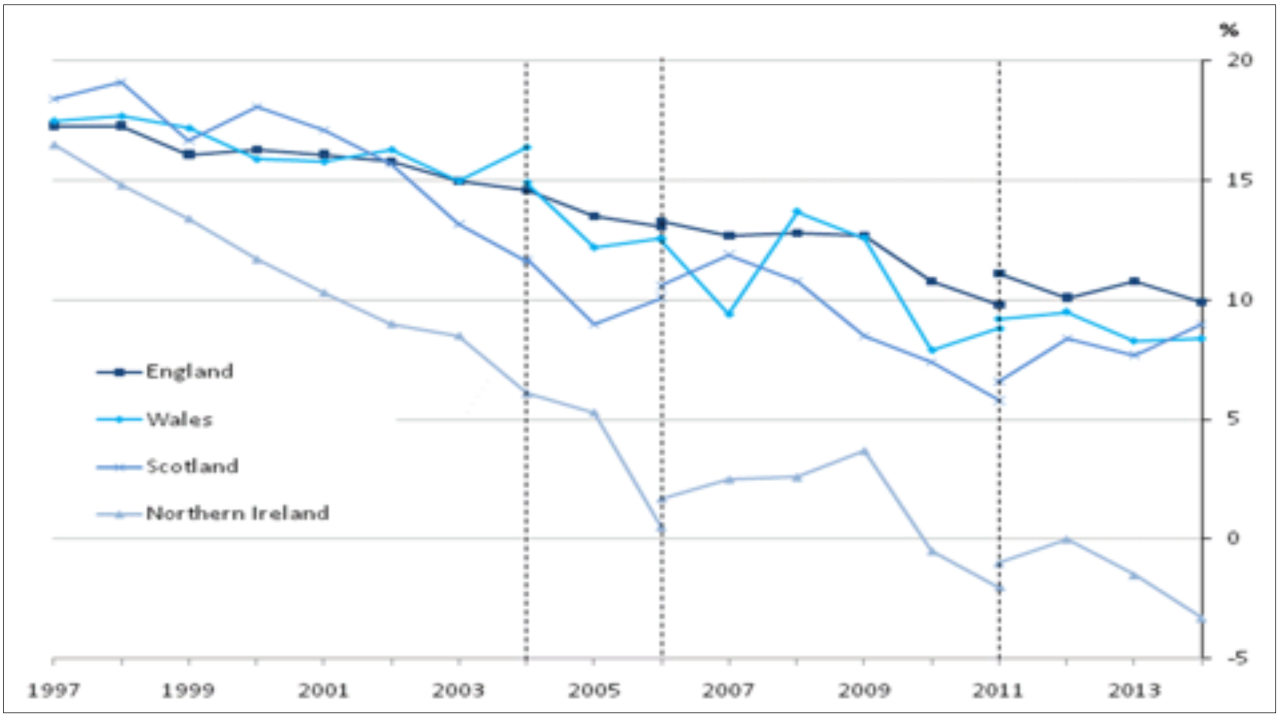
Source: HM Treasury 2015

The Gender Pay Gap over time

Both the Scottish and UK governments have recently expressed a determination to see greater progress to gender equality in wages. In July the UK government announced that it will become mandatory for businesses of over 250 employees to publish wage data by gender. Earlier this year the First Minister launched a 'Women's Pledge' for gender equality, including on wages.

The most recent figures from the Office of National Statistics (ONS) shows that over the last four decades there has been a long term decline in the gender pay gap across all the constituent countries of the UK and that this has continued since 1997 (see Figure 1).

Figure 1: Gender pay gap for median full-time hourly earnings (excluding overtime) by country, April 1997 to 2014



Source: ONS, 'Annual Survey of Hours and Earnings (ASHE), 2014 Provisional Results', 2015

Northern Ireland leads the way in this field, with the gender gap now marginally in favour of women. The high share of public sector jobs in Northern Ireland may help explain part of this, as the gender gap is smaller in the public sector. However, it cannot explain why the differential is negative nor the rapid relative decline in the differential, since 1997, in comparison to other UK constituent countries.

Despite such progress, not all the news is good. First, while Scotland performed better than England and Wales between 1997 and 2011, since 2011, Scotland has seen a rise in the gender gap. This is in contrast to the continuing decline in England, Wales and Northern Ireland. It is not clear why this should be the case.

Second, while the gender gap has narrowed to under 10% for women aged up to their mid-30s, the gap then grows to 30% by the age of 40 and to over 40% by the age of 50. This level of gap is not a great reduction on that seen in 1975, when it was just over 50% (see Table 3).

Table 3: % difference between UK male and female average pay, by age, in 1975 and 2013

Age	1975	2013	Change
17	2	1	1
20	18	3	15
25	26	3	23
30	45	6	39
35	58	14	44
40	54	30	24
45	57	36	21
50	53	42	11
55	47	36	11
58	43	29	14

Source: ONS, 'UK Wages Over the Past Four Decades - 2014', July 2014

Note: as the figures can be erratic year by year, the numbers shown in Table 1 are calculated as a 3 year average (i.e. for 17 the number shown is an average for those aged 16-18)

One possible explanation for this continuing differential, post 40, may be that changes in equality legislation and practice have had a greater impact on new entrants to the labour market than on existing members (a so called 'cohort' effect).

Another potential explanation may arise from the changes seen in the childbearing age that have taken place over this period. For example, in 1975 there were 7 times more children born to women under 25 than over 35, whereas now the numbers are virtually the same.

This shift in the pattern of childbearing may have led to some delay in the gender gap kicking in but, post any career break to start a family, a significant gap still emerges. If such a shift in the timing of childbirth **has** had an affect on the gender pay gap differential then it may be more down to changes in women's behaviour (perhaps reacting to that gap) than to changes in national pay policy.

Finally, Table 3 does not take into account different types of employment and women are more likely to work part time if they return to the labour market post any 'family' break. However, this may be a less valid explanation in the later years when the family is mature.

Overall, it seems that efforts made to narrow the gender pay gap have been much more successful in the earlier years of working life than in the later years.

Recent Fiscal Affairs Scotland papers

The following paper has also been published by Fiscal Affairs Scotland over the past month and is available from our website at www.fiscalaffairsscotland.co.uk.

- Analysis of Scottish GDP Q1 2015

Fiscal Affairs Scotland
August 2015

END-NOTES

(1) See HM Treasury, 2015, "A country that lives within its means: Spending Review 2015" www.gov.uk/government/publications/spending-review-2015-a-country-that-lives-within-its-means

(2) HM Treasury defines the Discretionary consolidation as the amount that needs to be found, over and above what would naturally occur through the current growth path of GDP, to ensure the spending profiles are delivered.

(3) GNI is Gross National Income. This is similar to Gross Domestic Income (GDP), but instead of the sum of the value added by all producers within the UK, it is the sum of the value added by all UK producers alone but regardless of their whereabouts (i.e., it adjusts for ownership).

Contact details

John McLaren m: 07429 508 596
e: john.mclaren@btinternet.com

Jo Armstrong m: 07740 440 766
e: jo@jo-armstrong.co.uk

Charity details

Fiscal Affairs Scotland SCIO
SC044827

Website fiscalaffairsscotland.co.uk