Around the UK

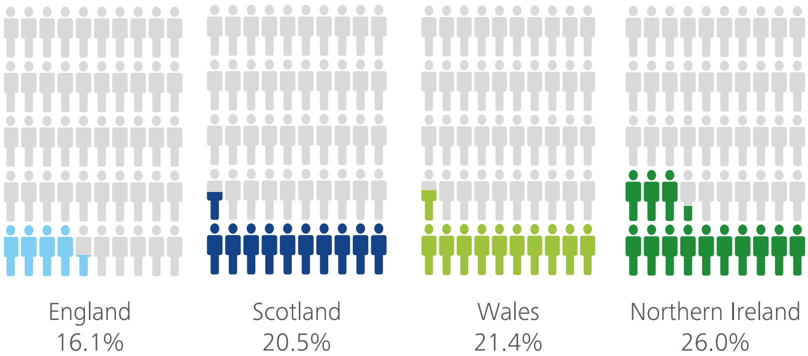
Introduction

The devolved government arrangements as we know them today began in the late 1990s with the Good Friday Agreement of 1998, Scotland Act of 1998 and Wales Act of 1998. The most significant steps towards greater devloution since then are now underway, triggered by 2015's close-run independence referendum for Scotland. However, those steps are not restricted to Scotland's relationship with Westminster as the referendum has stimulated devolution debates in each of the administrations.

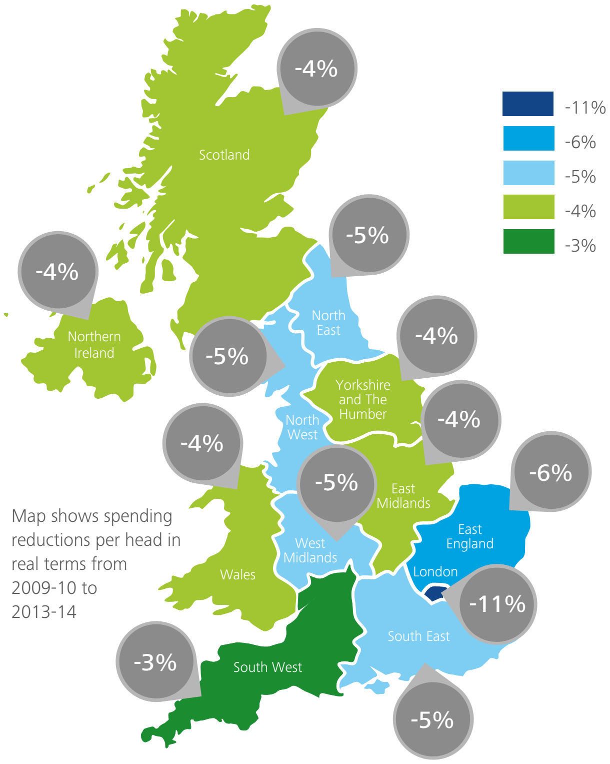
This chapter explores how the public sectors in Northern Ireland, Scotland and Wales are continuing to diverge, as well as differences across England's regions.

Figure 10. Across the UK
Public sector spending per head

Public sector as a percentage of total employment

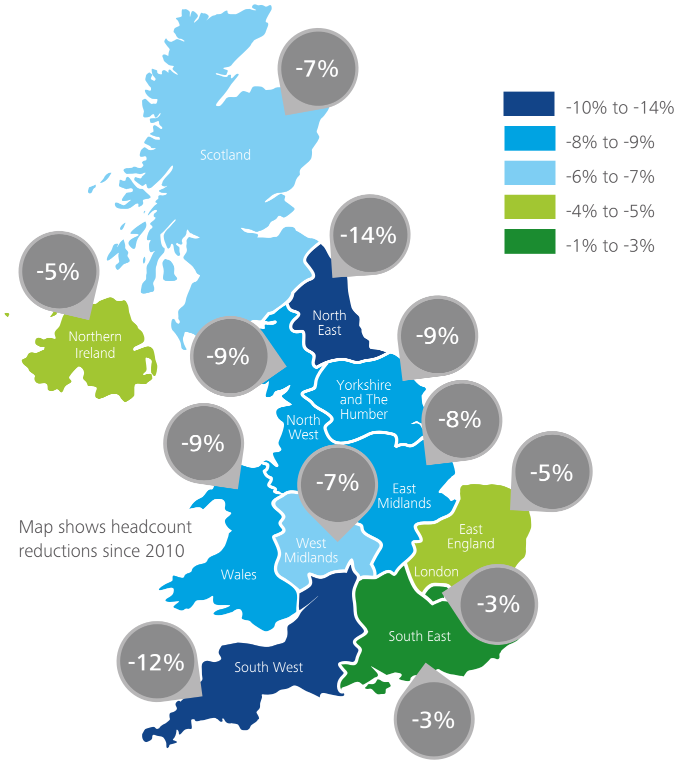


Spending reductions per head across the UK



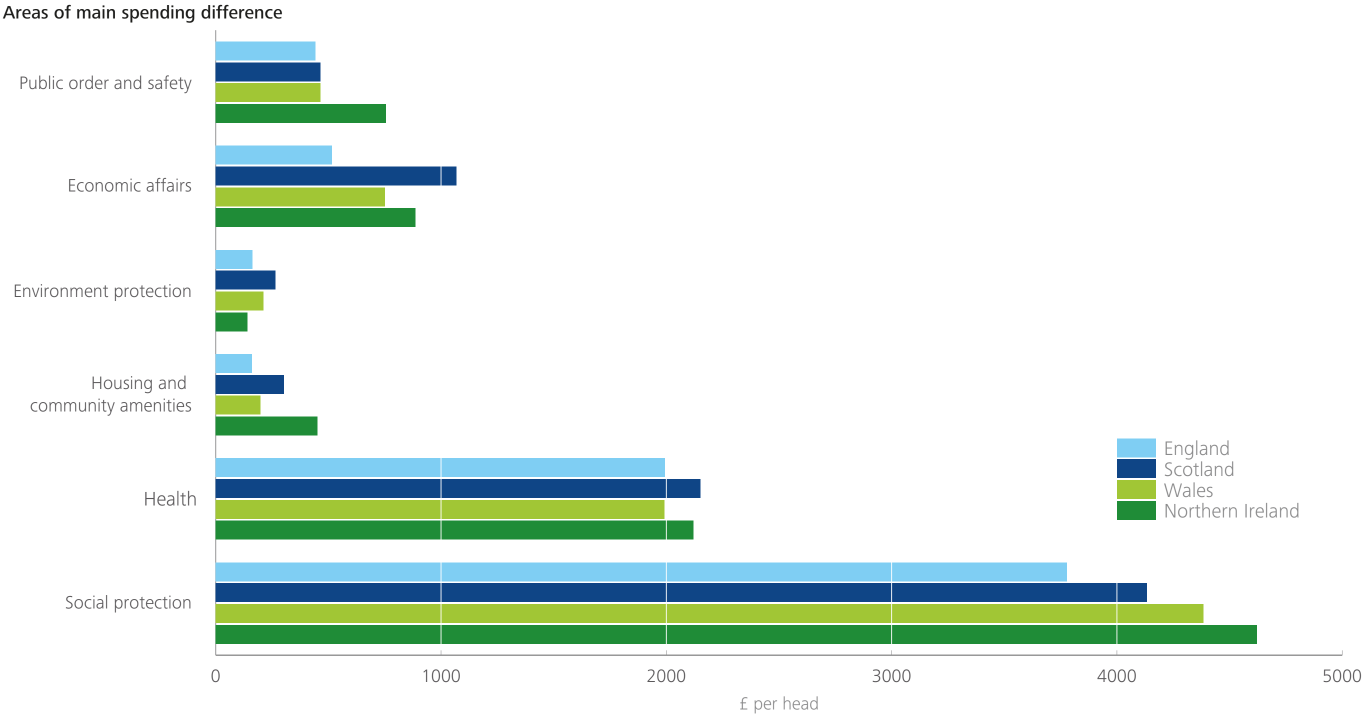
Map shows spending reductions per head in real terms from 2009-10 to 2013-14

Public Sector employment



Map shows headcount reductions since 2010

Areas of main spending difference



Source: Office for National Statistics, HM Treasury

England

The state of the state

England's governance looks set to change significantly in this UK Parliament, in part because the Scottish Independence Referendum threw a spotlight on the effects of devolution on England, and in part because new devolution deals could change the way the public sector is managed in large parts of the country.

Legislation announced in the Queen's Speech will introduce new procedures in the UK Parliament so that decisions only affecting England, or England and Wales, must be taken with the consent of the majority of MPs representing constituencies in England and Wales – thus resolving the 'West Lothian question'.

Public sector consortiums have put forward 34 proposals for devolution deals in England to the Department for Communities and Local Government (DCLG) which are under consideration as part of the Spending Review. The most ambitious could see greater local control of healthcare, housing, transport and skills among other parts of the public sector under the leadership of an elected mayor.

Reserved matters

England is governed by the UK Government, currently led by a Conservative majority. Matters reserved by the UK Government that are currently not devolved include:

- the constitution
- foreign affairs
- defence
- international development
- the Civil Service
- financial and economic matters
- immigration and nationality
- misuse of drugs
- trade and industry
- aspects of energy regulation
- aspects of transport including regulation of air services
- employment
- social security
- abortion, genetics, surrogacy, medicines
- broadcasting
- equal opportunities.

Public spending

Figure 10 shows annual public spending per head is lower in England than in the other UK administrations. At £8,678 per head, citizens in England receive around three-quarters of the amount spent on citizens in Northern Ireland.

From 2009-10 to 2013-14, which are the most recent figures available, annual spending per head in England went down by six per cent compared to four per cent in the other administrations.

Figure 10 also shows the most significant spending differences across the UK.

Public sector employment

England has the lowest proportion of public sector employees in the UK as a proportion of the total workforce. Some 16 per cent of the workforce is employed by the state, equalling 4,204,000 people. Since 2010, public sector headcount in England has reduced by seven per cent, or 320,000 people.

Northern Ireland

The state of the state

Northern Ireland appears to be pausing at a junction. While it has experienced a surge in investment, ongoing political instability threatens to hamper its economic potential.

The last financial year saw a record £1.4 billion of investment in Northern Ireland, with Invest NI supporting 37,000 jobs from 2011 to 2015, exceeding its target. A young, educated workforce, strong infrastructure and relatively low costs all make Northern Ireland a compelling prospect for global companies and its potential over the next decade is extraordinary. This investment has positioned Northern Ireland as a fast-growing hub for financial and professional services, creative and digital industries.

The growth of private sector market and employment opportunities in Northern Ireland marks important progress in coordinated efforts by the Executive to rebalance the economy. Against this backdrop, the Executive is now progressing a Voluntary Exit Scheme (VES) with the aim of reducing the public sector workforce by 20,000 in the next four years. Such a move could not have been delivered in the absence of a stronger private sector.

The Stormont House Agreement of December 2014 provided the foundation for progressing public sector reform in Northern Ireland but its implementation has stalled and renewed political agreement is needed to push forward. Legislation is also in place to allow Stormont to reduce its corporation tax rate to an expected 12.5 per cent rate. This would match the Republic of Ireland rate and further boost Northern Ireland's global appeal to investors. Like welfare reform implementation however, political consensus is required to secure its delivery and provide the expected economic benefits.

The next Assembly term will be critical in executing the next phase of public sector reform. This reform will be essential to ensure the immediate and longer term financial sustainability of public services. In the medium term, Northern Ireland's public sector will need to innovate and develop new and improved service delivery models to generate the necessary savings and modernise.

Moving forward significant cross-cutting reforms requires, for example: the optimisation of shared services, transformation of debt management across government, dealing with increasing levels of financial distress in delivery organisations, further digital transformation and better use of analytics tools to inform policy development and delivery. Delivering this reform agenda and creating a culture of innovation and continuous improvement will require investment in people and a different approach to managing talent.

The challenge for Northern Ireland now is to secure short and longer term political stability which will provide a basis on which the Executive can function effectively and deliver against its priorities.

About the Northern Ireland Executive

The Northern Ireland Executive is a five-party, power-sharing executive formed of the Democratic Unionist Party (DUP), Sinn Féin, Ulster Unionist Party (UUP), Social Democratic Labour Party (SDLP) and the Alliance Party.

Matters devolved to the Executive are:

- health and social services
- education
- employment and skills
- agriculture
- social security
- pensions and child support
- housing
- economic development
- local government
- environmental issues, including planning
- transport
- culture and sport
- Northern Ireland Civil Service
- equal opportunities
- justice and policing.

In addition, the Northern Ireland Assembly can legislate on certain other matters with the Secretary of State's consent.

Public spending

Annual public spending per head is higher in Northern Ireland than anywhere else in the UK. At £10,961 per person, Northern Ireland residents each receive £2,283 more in public spending than those in England. Northern Ireland's spending is notably higher than the rest of the UK on public order – policing, prisons and courts – due to its security needs. While public order and safety costs £443 per head in England, it costs £755 per head in Northern Ireland. At £4,622 per person, it also has the highest social protection costs, which comprise state pensions, welfare benefits, social services and other forms of support.

However, Northern Ireland spends less per head than anywhere else in the UK on environmental protection. At £141 per head, spending in this area is almost half the amount spent in Scotland.

Since 2009-10, annual spending per head has gone down by £472 in real terms, or four per cent. That is the same level of austerity reduction seen in Scotland and Wales when measured as spending per head, but slightly less than the six per cent in England.

Public sector employment

Northern Ireland has the highest proportion of public sector employees in the UK. Some 26 per cent of the workforce is employed by the state, equalling 208,000 people and since 2010, headcount has reduced by less than five per cent, or around 10,000 people.

Scotland

The state of the state

The independence referendum may have kept Scotland within the UK, but the close result ensured further devolution and a surge of Scottish influence in Westminster. This year is seeing a flurry of activity in both regards.

The Scotland Bill that will provide further devolved powers has been progressing through Parliament since its introduction in May. Discussions are also underway on a new fiscal framework, which is expected to be agreed in autumn 2015. New institutions are being created to manage and govern Scotland's new powers, including a new tax authority, and the fiscal commission will be placed on a statutory footing.

Against that backdrop, Scotland's public sector continues to diverge from those in England, Wales and Northern Ireland. A new programme for government promises a raft of reforms that include a data-driven focus on educational attainment, intervention to widen access to higher education, a 'custody in the community approach' to prisons, and an ambitious 20-year strategy to transform acute services. The latter has committed the Scottish Government to eliminating the use of the private sector in planned care and delivering world-leading performance on waiting times and driving productivity improvements.

Central and local government in Scotland will inevitably be watching the council reorganisations in Northern Ireland and Wales with interest. Similarly, Scotland's bold move to merge its police forces and its fire services is being watched closely from south of the border. Successful integration of eight organisations into one will always take time and for Police Scotland, the appointment of a new chief constable, as well as a new chair of the police authority, will be important milestones.

About the Scottish Government

The Scottish Government is a working majority government, led by the Scottish National Party (SNP), with 25 ministers acting as political decision makers. Some 129 legislators serve as Members of the Scottish Parliament, who next face an election on 5 May 2016.

Matters devolved to the Scottish Government are:

- health and social work
- education and training
- local government and housing
- justice and policing
- agriculture, forestry and fisheries
- environment
- tourism, sport and heritage
- economic development and internal transport.

Public spending

At £10,275 per head, annual public spending in Scotland is the second highest across the four UK countries. However, that has reduced by £453 per head since 2009-10.

Scotland has the highest spending per person on health in the UK at £2,151, some £157 more than is spent in England. It also spends substantially more than any other country in the Union on economic affairs, including economic development and transport, at £1,069 per head compared to £516 in England.

Spending on environmental protection is also highest in Scotland at £265 per head. While the Scottish Government places significant emphasis on protecting the country's natural environment, geographic differences play a role in levels of environmental spending – and Scotland's population is relatively sparse at 68 people per square kilometre compared to 134 people in Northern Ireland.[67]

Public sector employment

Scotland has the second lowest level of public sector employment in the UK. Some 21 per cent of the country's workforce are employed by the public sector, amounting to 532,000 people.

Since 2010, Scotland's public sector headcount has gone down by seven per cent, or 42,000 people.

The Scotland Bill 2015-16, currently progressing through the UK Parliament, looks set to devolve powers including:

- the ability to set thresholds and rates on income tax, and keep the money raised in Scotland
- the provision of the first ten per cent of VAT revenue raised in Scotland
- devolved Air Passenger Duty
- new welfare powers worth around £2.5 billion.

Wales

The state of the state

In the run-up to the 2014 Scottish independence referendum, implications for further devolution in Wales became increasingly apparent. As a result, a Wales Bill is expected to be published this autumn to pass through Parliament in early 2016 that should provide the Welsh Government with a new 'reserved powers' model. In other words, all matters other than those reserved by Westminster will be considered devolved.

More specifically, the Wales Bill is expected to see devolved powers over borrowing for capital investment, some elements of taxation, energy projects including fracking, election and assembly affairs, and some transport responsibilities. The Welsh Government is currently consulting on the creation of a Welsh Revenue Authority to collect devolved taxes from 2018.

Significant differences already exist in terms of the delivery of healthcare which is mainly through integrated Health Boards providing acute, mental health, community and primary care services. For citizens, those differences become manifest in concessions that include free prescriptions and hospital parking.

Local government in Wales looks set for significant reorganisation. Options are currently under discussion for either eight or nine councils to be created from the existing 22 as the Welsh Government believes that some are too small, which increases duplication and harms service quality. Such significant structural change does come with budget implications, as successful reorganisation could require investment in order to achieve savings in the medium and longer term.

About the Welsh Government

The Welsh Government is a minority government formed by the Labour Party, with 13 ministers and deputy ministers acting as political decision makers. Based in Cardiff's Senedd building, 60 Welsh Assembly Members (AMs) legislate and hold the Welsh Government to account. They next face an election on 5 May 2016.

Matters devolved to the Welsh Government are:

- agriculture, fisheries, forestry and rural development
- ancient monuments and historic buildings
- culture
- economic development
- education and training
- environment
- fire and rescue services and promotion of fire safety
- food
- health and health services
- highways and transport
- housing
- local government
- National Assembly for Wales
- public administration
- social welfare
- sport and recreation
- tourism
- town and country planning
- water and flood defence
- Welsh language

Public spending

At £9,924 per head, public spending in Wales is the second lowest in the UK. Since 2009-10, it has gone down by £415 per person in real terms.

Wales is the only UK country without any outlying public spending levels. The only area of public services in which Wales spends more than the other UK countries is education, where spending per head is £1,520 compared to £1,410 in England, £1,428 in Scotland and £1,503 in Northern Ireland.

Public sector employment

Wales has the second highest proportion of public sector employment in the UK. Some 21 per cent of the total workforce is employed by the state, amounting to 293,000 people.

Since 2010, headcount has reduced by nine per cent or 32,000 people.

Government progress against indicators

Introduction

Since our first report was published in 2012, *The State of the State* has assessed government progress against ten indicators. Analysis of those three years suggests that the public sector has shown considerable progress in some areas, but success in others has proved more elusive. This section of the report sets out our observations on progress to date and puts forward new indicators for the years ahead. With a new Government working to fulfil its manifesto commitments over the next five years, the time is right to identify a new set of measures that we will revisit annually.

Progress review

In 2012, our first *State of the State* identified ten indicators against which we have been assessing government activity in each subsequent report. Our original indicators combined the government's own commitments with areas that should – in our view – have been targeted with focused reform efforts. The table below summarises our latest assessment of those ten indicators.

Our assessment	Indicator	Evidence
Achieved	Encourage corporate sector spending to support growth	Post-crisis recovery is now established in the UK economy. Continued initiatives to maintain growth include cutting corporation tax and raising the employment allowance to encourage job creation.
	Drive significant public sector headcount reductions	Between 2010 and 2014, the Civil Service salary bill went down by £2.49 billion, or 18 per cent, and total public sector employment has fallen by 59,000 in the last year.[68, 69]
	Manage cash effectively	Government's cash management operation aims to make best use of cash surpluses, managed through the Debt Management Office (DMO). In 2014-15, the DMO met the Government's net cash requirements and has set cost-effectiveness of its cash management function as a key theme for this financial year.[70]
Good progress	Meet efficiency targets of £20 billion per year	The Cabinet Office achieved an impressive £18.6 billion of savings in 2014-15. However, this falls short of its ambitious £20 billion target for the year.[71]
	Support social innovation and transfer one million public sector workers into mutuals by 2015	The number of mutuals that have 'spun-out' of the public sector has exceeded 100. The latest available Cabinet Office figures suggest that they are delivering £1.5 billion of public services and employing 35,000 people.[72] Government remains committed to this reform and is expected to roll out a 'right to mutualise'.
In progress	Save cash through payment by results	Managed effectively, outcome-based commissioning could help focus public spending and stimulate innovation. Government needs to help such commissioning mature through support for contract management, advice and incentives.
	Drive localism through council funding	Devolution deals are a long-overdue step towards a more decentralised public sector. Crucially, funding and accountability are central to their design. However, Government needs to address financial distress in some councils in the shorter term.
	Support an economy-wide focus on productivity	UK productivity remains second lowest in the G7, but the Government has established an improvement framework based on long-term investment as well as reforms to policy areas including planning, skills, and regulation.
Requires attention	Save cash lost through fraud	Changes underway to the public sector counter-fraud landscape mean that pan-sector fraud rates are not currently available. However, the Government acknowledges that losses in the benefits and tax credits system are 'unacceptably high'.[73] Councils in England have detected a record £188 million of fraud.[74]
	Target net liabilities	The UK state's liabilities rose by £264 billion in the year to 2013-14, driven by increased borrowing and pension liabilities. Government reforms to public sector pensions and plans for debt reduction should reduce liabilities over time. But, as the Public Accounts Committee warned, the Government needs to recognise the impact of policy and spending decisions on its balance sheet.[75]