The implications of changing public sector budgets for rural Scotland

Research Report

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Rural Policy Centre Research Report

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Executive Summary

Introduction

- This report discusses the implications of changing public sector budgets for rural areas in Scotland. A number of key themes are discussed, including jobs and pay, housing, welfare and services. A Vulnerability Index is used to illustrate the vulnerability of local authorities to further downturn associated with severe spending cuts. Five of the top ten most vulnerable authorities are rural (the Western Isles, Argyll and Bute, Dumfries and Galloway, Moray and the Orkney Islands) and five are urban (including the top two most vulnerable). The report goes on to discuss a number of ways in which the public, private and voluntary sectors can respond to the challenges posed by the cuts.

- In 2009, UK public sector borrowing stood at £152 billion, a post-war record. As a result, all political parties approached the UK election in May 2010 proposing unprecedented programmes of spending cuts. The UK Coalition Government’s Emergency Budget in June 2010 set out steps to tighten public finances by £113 billion by 2014-5. Following this, the UK Comprehensive Spending Review (CSR) set out plans to cut public spending by a further £80 billion by 2014-15.

- There have been concerns about the differing geographical impacts of the cuts, with fears that rural areas will be hit particularly hard for three main reasons. First, while urban areas have higher absolute numbers of jobs in the public sector, the sector is an important employer in rural Scotland accounting for 20% of employment in accessible rural areas and 18% in remote rural areas. Second, the cost of service delivery in rural areas is higher than urban areas (the Rural Services Network [RSN 2010] estimates up to 90% higher) leading to concerns that government would be tempted to cut back on rural provision in favour of investment in places where people are more affordably and easily reached. Third, there have been concerns that some budgets, including rural and cultural spending, might be disproportionately affected as a result of the protection and ring-fencing of others, such as health and education.

- In addition, there are a number of other key features of rural Scotland which may mean that the spending cuts are felt particularly strongly, including the relatively small size of the private sector (and therefore limited ability to ‘soak-up’ jobs lost in the public sector), the relatively faster ageing of the population and the associated demands on health and social care services, and the lower wages but higher prices faced by rural households for basic commodities such as transport and heating fuel and food.

- The CSR confirmed the Scottish Government’s budget settlement until 2014-15, with a reduction of approximately £1.3 billion in cash terms in 2011-12 compared to 2010-11. The Scottish Government’s Draft Budget was passed in the Parliament in February 2011. The Budget includes a pay freeze for public sector workers earning above £21,000, a 3% efficiency savings target for all public bodies and an agreement between the Government and COSLA to deliver a further council tax freeze and to maintain police numbers and key education and social care commitments in return for an average 2.6% spending cut.

- The Environment and Rural Affairs 2011-12 budget has been reduced by £55 million (9.3%) when compared to 2010-11, with cuts across the whole portfolio, including spending on many elements of the Scottish Rural Development Programme (SRDP) and on the budgets for organisations such as SNH, Marine Scotland, SEPA and the Forestry Commission.
The implications of the funding cuts for rural Scotland

- Analysis by Local Futures (2010) reveals that while urban areas may suffer higher absolute public sector job losses, the impact of these losses in rural areas (including the Western Isles, Moray and Argyll and Bute) may be greater as a result of the weaker private sector. Moreover, females in part-time employment may be particularly badly affected as a result of the high proportion of such jobs in the public sector. Estimates vary for the likely overall numbers of job cuts, and it is likely to take some time before full scale of job cuts are known. The knock-on impacts of these job losses and pay freezes must also be taken into account, in terms of the reduced spending power in the locality and increased pressure on local employment and welfare services. Rural areas already have lower wage levels than urban areas, and many more households in fuel poverty (and severe fuel poverty). Moreover, accessible rural areas may be hard hit by job losses and pay freezes for commuters who work in nearby urban areas.

- A number of changes have been announced to the welfare system, amounting in Scotland alone to approximately £1.7 billion per annum by 2014-15. The welfare cuts may particularly hit those living in rural areas, faced with the rising price of basic commodities. There are particular concerns over changes to housing benefit which may force some people to move home or become homeless. Rural areas are already facing serious challenges in terms of the lack of affordability of market housing and the limited supply of affordable housing.

- The higher cost of basic service delivery in rural areas may mean that rural services are more likely, or the first, to be cut when local authorities are looking for cost savings. In addition, some types of services may be more vulnerable to cuts, such as rural transport services, cultural and music facilities and small-scale help for people (including those with disabilities and older people) with moderate needs. Cutting such small-scale services may lead to long-term impacts (particularly on the health service), as these individuals may be forced to leave their homes if help is withdrawn.

- In specific localities, such as around RAF Kinloss in Moray, cuts in defence spending will have severe impacts on employment and spending levels.

The Vulnerability Index of local authorities

- The Vulnerability Index provides an assessment of the vulnerability of local authorities to further economic downturn associated with severe public sector cuts based on four indicators (the proportion of jobs in the public sector, the proportion of the population of working age, the average earnings of local residents and the proportion of the population receiving Job Seekers Allowance). Although the top two most vulnerable authorities are urban (Dundee and West Dunbartonshire), five of the top ten are rural - Western Isles (3rd most vulnerable), Argyll and Bute (5th), Dumfries and Galloway and Moray (joint 6th) and the Orkney Islands (9th). Argyll and Bute, Moray and the Western Isles are also seeing particularly high cuts in spending in 2011-12 (compared to 2010-11), well above the 2.6% average for Scottish local authorities. At the same time, three of the six least vulnerable authorities are rural - Perth and Kinross (27th), the Shetland Islands (30th) and Aberdeenshire (32nd) - suggesting a significant variation in the ability of rural areas to deal with the pressures of the public sector cuts.

- The Index provides a simple method for estimating the vulnerability of local authority areas and highlights that both urban and rural authority areas are vulnerable (and
less vulnerable) to further downturn associated with severe cuts. However, there are a number of other factors which must be taken into account when estimating the impacts of the cuts, which may mean that the impact in rural areas is harder, including the poor affordability of housing, higher prices for household commodities, the higher costs of service provision and the smaller size of the private sector.

- There is also a variation between rural local authorities in terms of the key challenges they are facing. In Argyll and Bute and the Western Isles, for example, the key vulnerabilities relate to the low proportion of the population of working age and the high proportion working in the public sector. In Moray, the key challenge is the low level of weekly pay. In Dumfries and Galloway, the key challenges relate to low pay and the low proportion of the population of working age.

**Public, private and voluntary sector responses to the cuts**

- The public, private and third sector all have roles to play in tackling the challenges posed by the public sector cuts. Across the public sector, innovative ideas are required to jointly provide services, either with other local authorities or with private and third sector organisations. Further exploration of the potential to provide services online would also be worthwhile, although this requires good quality broadband provision.

- The UK Coalition Government argues that the private sector will expand to take up some of the slack in terms of the public sector job losses, although the extent to which this will happen in rural areas where the public sector is small is more questionable. Although evidence (see for example, Atterton and Affleck 2010) suggests that rural businesses are relatively resilient, there will be a number of pressures on the (small) private sector in rural Scotland, as a result of reduced local spending and public sector procurement. Tailored business support and good infrastructure provision (including next generation broadband and premises, for example) will be required to assist businesses to start-up, to maintain their position and indeed to expand.

- Community and voluntary sector groups are already involved in the provision and co-provision of services, alongside public sector agencies. The higher levels of volunteering in rural areas and the strength of the third sector and of informal networking, mean that rural areas may be well placed to generate good examples of community and voluntary sector involvement in service delivery. However, third sector groups need to be well supported in taking on these roles, and overcoming some of the challenges that they too face, including budgetary cuts, limited capacity and the ageing demographic of many volunteers.

**Implications for future policies to support rural areas**

- The analysis contained in the report has a number of implications for future policies to support rural areas:
  - The variability of rural areas always needs to be taken into account in policy formulation. One size fits all policies will not work as rural areas face a variety of different challenges, relating to low pay, low proportions of the population of working age (i.e. an imbalanced age structure with high numbers of older residents) and high proportions working in the public sector.
- The new demands being placed on voluntary and community sector groups, while presenting good opportunities, should not be underestimated and these organisations need to be supported in taking on these roles, not least by an innovative and forward-thinking public sector.

- While rural businesses may be reasonably resilient to difficult economic times, additional support may be required if demand levels drop dramatically or continue at a low level into the future. Financial support may be required, as well as ensuring good quality infrastructure and premises are available for new starts and for expanding businesses.

- The recent economic downturn and associated public sector funding cuts potentially offer an opportunity for a more fundamental and strategic rethink, from a specifically rural perspective, about alternative visions of how economic and social life might be best organised and managed, including in relation to new models of home-working, travelling, energy generation and use, and social enterprise. Sharing best practice approaches in these areas will be important.

- It is critically important that we improve our understanding of the challenges and costs of rural service provision and the needs of rural areas. This includes developing a better evidence base on these issues.

  - The Rural Policy Centre will be undertaking further work in this area, in particular to explore the vulnerability of small, county towns in Scotland to public sector cuts. This report also forms the basis of further work over time to explore the continuing impacts during 2011-12 and beyond.
Chapter 1: Introduction

1.1 Summary

- In 2009, UK public sector net borrowing stood at £152 billion, a post-war record. This partly reflected an increasing structural deficit in the UK but also the worldwide financial collapse in 2007-08.
- As a result of the large structural deficit, all major political parties approached the May 2010 UK General Election proposing unprecedented programmes of spending cuts. The details of these were revealed in the June 2010 Emergency Budget and the October 2010 Comprehensive Spending Review.
- Scotland’s budget has been reduced by £1.3 billion for 2011-12. The cuts will be faced across all levels of government and all policy portfolios.
- Concerns have been expressed about the variable impacts of the cuts on different social groups and geographical areas, with fragile and deprived communities, including rural areas, felt to be particularly at risk. This is for a variety of reasons, including the importance of the public sector as an employer in rural Scotland, the high cost of service delivery and the likelihood of rural, environmental and cultural budgets being more severely cut as others (such as health) are protected.

1.2 Introduction

The UK Coalition Government has announced substantial public sector savings in order to try and reduce the national deficit. These savings have been passed to devolved parts of the UK, with Scotland experiencing a £1.3 billion reduction in its budget for 2011-12. The savings will be felt across all levels of government, including national and local government, and all policy portfolios, including transport, housing, employment and welfare support and rural affairs. The public sector savings will take many forms, including direct job losses, recruitment and pay freezes, reduced service provision and a reduction in contracts for voluntary and private sector organisations that are clients of the public sector. In turn, these changes are likely to result in reduced consumption levels in the wider economy (Commission for Rural Communities, 2010a). These concerns have led to criticism that the cuts are too severe and run the risk of undermining the UK’s recovery from recession and creating negative impacts for the private sector.

There has been particular concern that cutting expenditure too fast and too hard could particularly threaten fragile and deprived communities which tend to be highly dependent on the public sector in terms of both employment and service provision (APSE, August 2010). This report discusses the potential impacts of the public sector budget cuts on rural areas in Scotland1.

1.3 Why are the public sector spending cuts considered necessary?

In 2009, UK public sector net borrowing stood at £152 billion, a post-war record (Bell 2010). The borrowing partly reflected an increasing structural deficit in the UK, but it was mainly a response to the worldwide financial collapse in 2007 and 2008 which led to a significant drop in tax revenues (Bell 2010). The financial instability started in the sub-prime mortgage market in the USA which destabilised inter-bank credit markets, and with the collapse of the Northern Rock bank in the UK in the summer of 2007. Instability continued in the banking system into 2008, resulting in hugely expensive bank bail-outs funded by tax-payers in

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1 In order to provide a well informed and balanced account of the rural implications of the public sector cuts, this report draws on a wide range of different source material.
several countries. In the UK, national economic growth forecasts for 2008 and 2009 were dramatically reduced and public sector debt increased significantly (Ward 2010).

Lasting from mid-2008 to the end of 2009, the UK recession has been the longest and deepest since the Second World War (Harari 2010). In line with the UK economy as a whole, the Scottish economy was in recession from the middle of 2008, with sharp declines in GDP in the fourth quarter of 2008 and first quarter of 2009, although this decline had lessened by the third quarter of 2009. Slight growth was observed in the fourth quarter of 2009 before the Scottish economy was seen to contract again. The trough in GDP occurred in the first quarter of 2010, with Scottish GDP down 5.8% compared to its pre-recession peak (Goudie 2010). A decline in Scottish labour market conditions coincided with the slowdown in economic conditions and accelerated towards the end of 2009. Over the year to the fourth quarter of 2009, unemployment in Scotland rose by 65,000. Despite the Scottish economy moving out of recession in the fourth quarter of 2009, conditions in the labour market continued to decline into 2010 with a fall in employment and increase in unemployment (The Scottish Government 2010a).

As a result of the UK’s large structural deficit, all of the major UK political parties approached the May 2010 UK General Election proposing unprecedented programmes of spending cuts. The UK Coalition Government’s Emergency Budget in June 2010 set out steps to tighten public finances by £113 billion by 2014-5, with £30 billion coming from higher taxes, £11 billion from welfare reforms, £10 billion from lower debt-interest costs and £61 billion from cuts to central government departmental expenditure programmes (Ward 2010). These cuts represented the deepest and fastest public sector cuts in recent memory, and resulted in a forecast of 600,000 job losses nationally in the public sector by the Office for Budget Responsibility (Local Futures 2010).

Following this, the UK Comprehensive Spending Review (CSR) in October 2010 set out plans to cut UK public spending by a further £80 billion by 2014-5, equivalent to 6% of GDP. However, concerns have been raised about the economic impact of the proposed cuts at a time when the UK is still recovering from recession, and these were heightened following the unexpected news of a 0.5% contraction in the UK economy in the final quarter of 2010 following four straight quarters of growth. As a result of this contraction, several organisations have revised their estimates for future growth. For example, the British Chambers of Commerce (BCC) has downgraded its forecast for UK GDP growth in 2011 to 1.4% from a forecast of 1.9%, although it has increased its estimate for growth in 2012 from 2.1% to 2.3%. The BCC also increased its estimate for unemployment for early 2012 from 2.6 million to 2.65 million (BBC News 8th March 2011).

The CSR confirmed the Scottish Government’s budget settlement until 2014-15, and in response the Scottish Government published its Draft Budget for 2011-12 in November 2010. The CSR resulted in a reduction in Scotland’s budget of approximately £1.3 billion in cash terms in 2011-12 compared to 2010-11 (considerably more than was anticipated following the previous UK Labour Government’s final UK Budget in March 2010). The Scottish Draft Budget 2011-12 underwent Parliamentary scrutiny in the winter of 2010-11 and was passed (despite opposition from Labour and Green MSPs) on February 9th 2011. Amongst other measures, the Budget includes a public sector pay freeze (with staff earning less than £21,000 receiving a minimum annual pay increase of £250 but suspended access to all bonuses next financial year) and a 3% ‘efficiency savings’ target for all public bodies². It

² These efficiency savings encourage public bodies to improve productivity and hence produce the same outputs with fewer inputs. However evidence from past efficiency savings programmes is at best mixed, plus without a properly established baseline and longitudinal research it will be impossible to know if this 3% target has been met. Also, services may be cut with no clear explanation as to whether these derive from genuine reductions in budget or a failure to make the necessary efficiency savings (Bell 2010). Research by Audit Scotland (2010) has also found that setting individual targets may encourage silo thinking where public bodies focus on their own savings and not on how savings can be made by working with others. One way in which the Scottish Government
also includes a reduction of £55 million in the budget for the Environment and Rural Affairs Department with cuts required across all aspects of the portfolio, including through reduced spending on the Scottish Rural Development Programme (SRDP).

1.4 What are the likely geographical impacts of the spending cuts?

The geographical dimensions of the public sector funding cuts have not been widely researched, although as noted above, concerns have been raised that some areas and some demographic groups may be more seriously affected than others. For example, an independent analysis of the distributional effects of the Government’s tax and benefit reforms by the Institute of Fiscal Studies (IFS) concluded that between 2010 and 2014, it will be the lowest income households of working age that will lose most from the UK Government’s June 2010 budget (Browne and Levell 2010). Moreover, a recent BBC News article reported concerns from Unison and the National Housing Federation that the most vulnerable individuals and communities in society would be the most seriously affected, despite UK Government assurances that these groups would be spared the worst of the cuts and that frontline services would be protected (BBC News 24th January 2011). Analysis by the Trade Union Congress (TUC) in October 2010 revealed that the CSR would hit the poorest 15 times harder than the rich, with those on incomes below £10,200 per annum suffering reductions in spending on services equivalent to 29.5% of their annual income on average (TUC 2010).

This report explores the potential impacts of the cuts for rural areas in Scotland. Concerns have been raised that rural areas would be hard hit by the need to reduce costs in the public sector and there are several reasons for this. First, the public sector is a significant employer in rural Scotland, accounting for 18% of employment in remote rural areas and 20% of employment in accessible rural areas (26% of employment in the rest of Scotland). Although absolute numbers of job losses may be higher in urban areas, the large size of the public sector in rural areas combined with the relatively small private sector (and therefore limited alternative employment opportunities), may mean that rural Scotland is disproportionately affected by public sector recruitment and pay freezes and direct job cuts.

Second, the costs of delivering basic services such as education, health and transport, are higher in rural areas as a result of the scattered, sparse population. Estimates from the Rural Services Network (RSN) relating to rural England, place the costs of service delivery up to 90% higher in rural areas than in urban areas, with some services that are provided ‘on a shoestring’ being particularly vulnerable to even small cuts (RSN 2010). Thus, in response to budgetary pressures, both national and local government might be tempted to cut back on rural service provision in favour of continuing investment in services in urban areas where

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3 On 22nd March 2011, Channel 4 News launched a ‘Cutsmap’, a crowd-sourced map of spending cuts in the UK. Individuals are asked to send in a web link to a report on a spending cut and Channel 4 News will plot the location of the cut on a map of the UK. The aim is to plot the development of the cuts as they bite. For more information see: http://www.channel4.com/news/cutsmap-show-us-the-spending-cuts.

4 However, Deputy Prime Minister Nick Clegg subsequently questioned the definition of fairness used by the IFS (BBC News 22nd October 2010).

5 The Institute of Public Policy Research (IPPR) also raised concerns about the most vulnerable in society following the June 2010 UK Budget, highlighting that the Budget was too narrowly focused on deficit reduction with an assumption that the private sector would generate economic growth. It also argued that the measures put in place to protect the poorest would be effectively cancelled out by the scale of cuts announced which would hurt the vulnerable badly if the economic recovery does not deliver jobs for those on benefits (IPPR Press Release 22nd June 2010).

6 The Rural Services Network is a group of more than 250 organisation working together to improve the delivery of rural services across England. For more information see http://www.rsnonline.org.uk.
people are more easily and affordably reached. These pressures can be set against two key social trends which are creating increased pressure on service provision: the ageing of the rural population, and the increasing demands on health and social care; and the current increased demands on benefit, welfare and employment services (such as Citizens Advice Bureaux) as a result of the economic downturn and the rising cost of basic household commodities such as food and fuel.

Third, demands to achieve savings in the public sector may disproportionately affect the activities and budgets of those departments and quangos that work in the rural, conservation and environmental policy arena, both in devolved administrations and in the UK as a whole. The Commission for Rural Communities (CRC) in England for example, was one of the first bodies to be confirmed as being abolished prior to the CSR. The Forestry Commission (FC) budget has been cut from £53 to £47 million in 2011-12, and 450 job losses have been announced, including 100 at the FC’s headquarters in Edinburgh (BBC News 2nd February 2011). The Scottish Government also announced a reduction in the number of national devolved public bodies from 199 to 120 by April 2011. Some areas of government spending have been ring-fenced for protection (such as health and overseas aid) and others as preferred for being spared the worst of the cuts (such as education and defence). This means a risk of public sector cuts falling disproportionately in ‘unprotected’ sectors such as local government, environmental protection, transport and the arts (Ward 2010). There has been concern that at a time of pressure on the public purse, using public money to protect wildlife and habitat may not be regarded as a high priority (BBC News 13th October 2010).

1.4 Report structure

This chapter has set out the background and rationale for this report, explaining why the public sector cuts are considered necessary and setting out the reasons why the impacts may be particularly severe in Scotland’s rural areas.

Chapter 2 outlines the public sector funding cuts in Scotland in more detail, as set out in the Scottish Government’s Budget and Spending Plans for 2011-12. Chapter 3 provides a thematic discussion of the implications for rural areas in Scotland, with reference to currently available information on a number of issues, including jobs and pay, housing, welfare and service provision. The chapter also presents a local authority ‘Vulnerability Index’ developed by Rose Regeneration and the RSN7. Using four indicators, this analyses the vulnerability of local authority areas to a new economic downturn driven by severe public sector spending cuts.

Chapter 4 discusses some of the potential responses to the funding cuts, focusing on the potential for greater private and third sector involvement in service provision and the need for new partnership working arrangements. Finally, Chapter 5 concludes the report with a summary of the key points and some implications for future policies to support the individuals, businesses and public and voluntary sector organisations living and working in rural communities in Scotland.

7 The work has been undertaken by Ivan Annibal of Rose Regeneration (http://www.roseregeneration.co.uk/) and Dan Bates of the Rural Services Network (http://www.rsnonline.org.uk/). Further information is provided in Chapter 3.
Chapter 2: The Scottish Government Budget 2011-12

2.1 Summary

- The CSR fixed spending budgets for all UK Government Departments and confirmed the Scottish budget settlement until 2014-5.
- The CSR required the Department for the Environment, Food and Rural Affairs (Defra) to cut its budget by £162 million, including through the axing of many ‘arms-length’ organisations (such as the CRC).
- The Budget for 2011-12 was passed by the Scottish Parliament in February 2011 and this sets out the Government’s spending plans and how it will manage the £1.3 billion reduction in its budget. The Budget includes a number of key commitments, including an agreement with COSLA to deliver a further council tax freeze and key education and social care commitments, a pay freeze for public sector workers’ earning more than £21,000 and protected spending on health services.
- The Rural Affairs and the Environment portfolio has seen a budget reduction of 9.3% from 2010-11 to 2011-12 (£55 million), while the Local Government portfolio has seen a budget reduction of 3.7%, with a fall likely in the resources available to the public sector in Scotland for at least ten years.
- On average, Scottish local authorities will see a 2.6% reduction in their budgets (representing about £450 million across Scotland), although the cuts for some authorities (including Aberdeenshire, Argyll and Bute, Moray and the Western Isles) are higher.

2.2 Introduction

Following the UK Government’s CSR in October 2010, the Scottish Government produced its Draft Budget for 2011-12 (The Scottish Government 2010b). This was passed by Parliament in February 2011 and sets out the Government’s spending plans and how it intends to manage the £1.3 billion reduction in its overall budget.

This chapter outlines the main announcements in the Budget, summarising the budget cuts across all of the Scottish Government’s portfolios, but particularly drawing out the key budgetary changes in the Rural Affairs and Environment and Local Government portfolios.

2.3 The UK Comprehensive Spending Review (October 2010)

The UK Government published its Comprehensive Spending Review (CSR) on 20th October 2010 which fixed spending budgets for all UK Government Departments and confirmed the Scottish Budget settlement until 2014-15. Prior to this, the UK Budget in March 2010 had been light on detail with regard to the public sector cuts that would be required in order to reduce the public sector deficit (partly due to the upcoming election) although the Chancellor commented at the time that the next public sector spending review would be “very tough”. The March 2010 Budget contained some positive messages for rural Scotland, such as the doubling of the plant and machinery investment allowance for Scottish farmers allowing them to more readily reinvest profits in the business, and the deferral of fuel duty increases, but the Chancellor’s comment raised concerns amongst rural communities about the potential impacts of the upcoming cuts (McBain et al. 2010).

The UK Coalition Government argued that the CSR was guided by the principles of fairness, reform and growth. It argued that the cuts were needed to stave off a debt crisis and that the
private sector would create jobs to fill the void, but it was criticised for putting the fragile economic recovery at risk (BBC News 20th October 2010). The UK CSR set out the cuts across Government, including: a 20% cut in funding for the police over four years; a 24% cut in the Foreign Office budget; a 35% cut in the Cabinet Office budget; a 40% cut in higher education spending; a 60% cut in the budget for social housing over four years with rates for new tenants being brought closer to private sector rents and the money going towards the building of new affordable homes; and £7 billion extra welfare cuts (on top of the £11 million announced in the June 2010 Budget), affecting incapacity and housing benefits and tax credits (including a withdrawal of Employment and Support Allowance from some claimants after one year). In total, the CSR set out cuts of £81 billion in public spending over four years with an average cut across Government Departments of 19% (less than the 25% expected, as a result of the extra £7 billion savings in the welfare budget and a £3.5 billion increase in public sector employee pension contributions). It was also announced that the rise in state pension age to 66 for both men and women would be brought forward to 2020 (six years earlier than planned).

At UK level, the CSR asked the Department for the Environment, Food and Rural Affairs (Defra) to look for savings of £162 million. In response, Defra argued that this would be achieved by measures including limiting recruitment and reducing the number of non-permanent staff, IT efficiencies and cuts to rural development agencies (BBC News 13th October 2010). However, cuts in Defra’s budget raised concerns amongst environmentalists and conservationists that the huge benefits brought by Defra and its agencies (in return for modest investment - Defra’s budget amounts to just half a penny out of every pound the government spends), in the form of wildlife, clean air and water, flood alleviation, carbon sequestration and pollination, would be lost. These concerns were particularly strong given the difficulty in measuring these returns and in a context where the spending of other departments (in areas where impacts are perhaps easier to measure and demonstrate) was being ring-fenced or protected from the worst cuts (BBC News 13th October 2010). The CSR encouraged Defra to focus spending on ‘areas of high economic value’ including flood and coastal defences and to make better use of EU Rural Development Programme for England (RDPE) money through focusing on schemes which have the most beneficial impact on the environment and by reducing the red tape and bureaucracy faced by farmers (HM Treasury 2010).

In order to improve accountability, reduce costs and support the aims of a ‘Big Society’ by encouraging alternative forms of devolved or non-state delivery, the CSR also set out a list of organisations (or ‘Arms Length Bodies’) that the Government wished to abolish or reduce in size. One of the first to be confirmed as facing the axe was the England-based CRC, a move which it was argued would save Defra £18 million over the CSR period. In total, Defra was charged with reducing the number of bodies from 92 to 39 and further details of which organisations might be abolished, merged or reformed in other ways, were provided in the leaked letter from Cabinet Office Minister Francis Maude to Deputy Prime Minister Nick Clegg. These included organisations operating in devolved parts of the UK and across the country as a whole, including the Advisory Committee on Organic Standards, the Advisory Committee on Pesticides, British Waterways, the Environment Agency, the Forestry Commission and the Farm Animal Welfare Council. Concerns were raised regarding who would take on the responsibilities of these organisations when they were abolished or reduced.

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8 In a note to ministers published in The Guardian on 8th March, the Association of Chief Police Officers estimated that 28,000 jobs would be lost in the 43 police forces in England and Wales as a result of the cuts (The Guardian 8th March).
9 This has been heralded as the Coalition Government’s central idea, based around devolving power to local communities and local government and supporting and empowering the community and voluntary sector to undertake their role in the delivery of public services. In Scotland, the ‘Big Society’ concept is not widely used, although the localism rhetoric is still strong.
10 This is available online at: http://news.bbc.co.uk/1/shared/bsp/h/dfs/4_09_10_bbcnewsquangos3.pdf.
2.4 Scotland's Budget 2011-12

2.4.1 The Scottish Budget 2011-12

The CSR 2010 resulted in a reduction in Scotland’s budget of around £1.3 billion in cash terms (£1.8 billion in real terms) in 2011-12 compared to 2010-11, representing a fall of £800 million in the capital budget and £500 million in the revenue budget (Wakefield and Hudson 2010)\(^\text{11}\). This reduction was considerably more than was anticipated following the UK Budget in March 2010, and the largest reduction ever in Scotland’s budget from Westminster. As a result, Bell (2010) argues that the (one year) 2011-12 Scottish Budget was the most difficult since devolution. Over the subsequent four years, the anticipated reduction in the Scottish Government budget is £3.3 billion (or 11%) (APSE November 2010).

In terms of resource spending, Scotland fares marginally better than the other devolved administrations, with a lower cumulative real reduction in resource spending in Scotland than in the UK as a whole (6.8% and 8.3% respectively), although in capital terms the situation is less favourable with projected declines in public sector capital spending allocations in Scotland of 38% in real terms by 2014-15 (compared to 29% in the UK as a whole). Scotland’s resource spending has largely been protected as a result of the decision to protect the NHS budget in England, but the substantial decline in capital spending allocations is largely a result of the Barnett consequential of decisions to drastically cut back capital spending on social housing and on schools in England (Bell 2010). It is worth noting that the Scottish public sector will face cuts from both the Westminster and Scottish Governments. Some cuts will affect Scotland but are outside the control of the Scottish Government, including defence budget cuts (affecting employment and economic activity around Kinloss, for example) and proposed changes to the welfare system for working age adults to reduce welfare spending levels (Bell 2010).

The Scottish Government’s Draft Budget published on November 17\(^\text{th}\) 2010 (The Scottish Government 2010b) set out how the Scottish Government intended to manage this reduction in its overall budget and its spending plans for 2011-12. The Draft Budget was informed by the work of the Independent Budget Review Panel set up to consider options and make recommendations before the end of July 2010, initially following the UK Budget in April 2010 and then again following the Emergency Budget in June 2010. Following the June 2010 UK Budget, the Panel warned that it might take until 2025/6 for the Scottish Government’s budget to return to 2009/10 levels and estimated that the cumulative loss (compared to the Scottish Government budget remaining at 2009/10 level) was likely to be approximately £42 billion\(^\text{12}\).

The Scottish Spending Plans were also constructed in a complex political environment in terms of the new Coalition Government and the UK Emergency Budget in June 2010 and the major debt crisis in the UK and Europe. This was also a time of challenging economic circumstances in Scotland with economic recovery remaining at best fragile and unemployment figures in November 2010 suggesting a continuing rise (although employment levels also increased in this period [primarily due to a rise in part-time employment] suggesting some stabilisation, although the impact of the public sector cuts was yet to be felt at this time).

\(^{11}\) This is a Scottish Government figure. The Treasury figure is slightly lower at £900 million (see Burnside 2010). Also, £100 million is to be reallocated from revenue to capital to alleviate immediate pressures and support existing capital public works infrastructure programmes/projects in 2011/12. The £1.3 billion does not include the £332 million of cuts announced in the June 2010 budget which the Scottish Government took the decision to defer until 2011-12 in order to protect the recovery that was occurring in the Scottish economy.

The publication of the Draft Budget commenced Parliamentary scrutiny of the Budget (Scotland) Bill in January/February 2011. This period of scrutiny was shorter than usual as a result of the Scottish Draft Budget only being published in November (usually it is September) as a consequence of the timing of the CSR in October. The Budget Bill was passed by the Scottish Parliament on 9th February 2011.

The Budget sets out the 2011-12 Spending Plans of the Scottish Government. The Government’s Total Managed Expenditure (TME) amounts to £33.6 billion in 2011-12, including the Departmental Expenditure Limit of £27.9 billion announced as part of the 2010 CSR. The document set out the various mechanisms that the Scottish Government is using to meet the required cuts, including achieving further efficiencies, further savings from procurement, selling surplus assets, innovative approaches to funding infrastructure investment, freezing pay and constraining the highest earners, continuing to simplify public bodies, achieving further savings from scrutiny functions and maximising income within existing powers. However, the document argued that the savings that can be made through these actions are not as much as is required therefore further reductions in spending are unavoidable.

The Budget set out a number of key Government commitments, including:

- An agreement with COSLA to deliver a further council tax freeze, maintain police numbers and key education and social care commitments;
- Funding for major infrastructure projects such as the new Forth Crossing, the South Glasgow Hospitals and Scotland’s Schools for the Future building programme, and a £2.5 billion pipeline of health, education and transport projects to be delivered through the Non-Profit Distributing Model;
- Protecting spending on running health services in Scotland and abolishing remaining prescription charges;
- Introducing a pay freeze for public sector workers earning more than £21,000, with staff earning less than £21,000 receiving a minimum annual pay increase of £250, and bear down on the cost of the pay bill for the highest paid; this will also suspend access to bonuses next year;
- Sufficient teaching posts for all post-probation teachers in 2011 and a further real reduction in longer term teacher unemployment as agreed with the COSLA leadership;
- Maintaining existing eligibility criteria for free personal care and concessionary travel, saving money for older people.

Table 1 below provides the total (proposed) budgets for all Scottish Government Departments.

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13 Total Managed Expenditure (TME) covers Annually Managed Expenditure (AME) and the Departmental Expenditure Limit (DEL). AME covers expenditure which is difficult to predict precisely but for which there is a commitment to spend or pay a charge (e.g. teachers and student loans). The budget lines for these items are in effect a forecast of the cost of meeting these commitments rather than the consequence of recent decisions, although the distinction is not precise and funding has in the past been switched between AME and DEL following direction from H M Treasury. DEL is the element of the budget over which the Scottish Government has discretion and covers the balance of the TME (Wakefield and Hudson, 2010).
Table 1: Total proposed budgets for Scottish Government portfolios, 2011-12*

<table>
<thead>
<tr>
<th>Department</th>
<th>2011-12 Draft Budget (£m)</th>
<th>2010-11 Budget (£m)</th>
<th>Annual change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The First Minister</td>
<td>255.1</td>
<td>279.8</td>
<td>-8.8</td>
</tr>
<tr>
<td>Finance and Sustainable Growth</td>
<td>2,219.2</td>
<td>2,473.5</td>
<td>-10.3</td>
</tr>
<tr>
<td>Health and Wellbeing</td>
<td>11,758.4</td>
<td>11,662.4</td>
<td>0.8</td>
</tr>
<tr>
<td>Education and Lifelong Learning</td>
<td>2,481.1</td>
<td>2,715.0</td>
<td>-8.6</td>
</tr>
<tr>
<td>Justice</td>
<td>1,267.5</td>
<td>1,435.0</td>
<td>-11.7</td>
</tr>
<tr>
<td>Rural Affairs and the Environment</td>
<td>539.4</td>
<td>594.4</td>
<td>-9.3</td>
</tr>
<tr>
<td>Administration</td>
<td>236.0</td>
<td>262.0</td>
<td>-9.9</td>
</tr>
<tr>
<td>Crown Office and Procurator Fiscal</td>
<td>108.2</td>
<td>118.2</td>
<td>-8.5</td>
</tr>
<tr>
<td>Local Government</td>
<td>9,046.5</td>
<td>9,585.5</td>
<td>-3.7</td>
</tr>
<tr>
<td><strong>Scottish Government</strong></td>
<td><strong>27,911.4</strong></td>
<td><strong>29,125.8</strong></td>
<td><strong>-4.2</strong></td>
</tr>
<tr>
<td>Scottish Parliament and Audit Scotland</td>
<td>95.9</td>
<td>98.7</td>
<td>-2.8</td>
</tr>
<tr>
<td><strong>Total Scotland</strong></td>
<td><strong>28,007.3</strong></td>
<td><strong>29,224.5</strong></td>
<td><strong>-4.2</strong></td>
</tr>
</tbody>
</table>

* These figures include the budget for DEL only. AME is excluded, and is confined to four portfolios, Finance and Sustainable Growth, Health and Wellbeing, Education and Lifelong Learning and Local Government (Source: Wakefield and Hudson 2010).

Health and Wellbeing is the only portfolio to show an increase in cash terms (of 0.8% and £96.0 million) from 2010-11 to 2011-12, although this translates into a real terms decline of 1.1% (£123.2 million). The Justice portfolio sees a large decline of 11.7% (£167.5 million) in cash terms, while for Rural Affairs and the Environment the decline is 9.3% and for Local Government, 5.6%. The Local Government budget shows one of the largest cuts in real terms, although this is one of the largest budgets and thus, in proportional terms, the decrease is smaller than in many other areas. The Housing and Regeneration Budget (a ‘Level 2 budget line’) also sees a real terms decrease of £101.5 million or 20.8% (Wakefield and Hudson 2010).

Looking in more detail at Level 2 budget lines, other areas have also seen substantial budget cuts, including Planning (a real terms decline of 24.1%), Third Sector and the Social Economy (25.4%) and Research, Analysis and Other Services (15.9%) (Wakefield and Hudson 2010).

Guided by the need to protect key services and economic recovery, the Budget sets out a number of priorities for spending cuts, including the following which are of particular relevance to rural Scotland:

- A reduced budget for SEPA and SNH and pressure on these bodies to improve efficiency to help reduce the impact of these cuts through a 3% efficiency target across all Scottish public bodies;
- A reduced budget for some of the components of the SRDP, with fewer and more focused funding rounds and a review of the size of the grants awarded to ensure that the benefits of these schemes are more evenly spread;
- A reduced budget for enterprise and tourism (including a £400,000 budget cut for visitscotland), building on earlier reforms and seeking further reductions in staffing levels, increased efficiencies within the bodies and removing lower priority activity.
At the same time, the Budget also announces a number of priorities for future spending which will have implications for rural and urban areas, including:

- Supporting economic growth through an extra £600 million investment in new affordable housing supply, through use of £55 million of new Government funding;
- Implementing the National Renewables Infrastructure Plan and establishing the £70 million Renewables Infrastructure Fund which will receive £17 million in 2011-12;
- Over £11 million spending on broadband interventions to support the Digital Ambition for Scotland, putting in place the broadband infrastructure needed to support innovation;
- Investing a further £11.9 million in support of Scotland’s food and drink sector; and maintaining the Small Business Bonus Scheme, helping small businesses through the current tough economic climate (The Scottish Government 2010b).

The remainder of this chapter explores in more detail the budget cuts in the Rural Affairs and Environment and Local Government portfolios, as these are of particular relevance to this report. However, the thematic analysis in Chapter 3 picks up on the spending cuts in other departments which will affect Scotland’s rural areas.

2.4.2 The Rural Affairs and Environment portfolio budget

Chapter 11 of the Budget (The Scottish Government 2010b) sets out the spending plans for the Rural Affairs and Environment portfolio in 2011-12. The budget for the portfolio will decline from £594.4 million in 2010-11 to £539.4 million in 2011-12 (£529.4 million in real terms at 2010-11 prices). The year on year cut in cash terms on resource budgets is £35 million and on capital is £20 million. The Chapter of the Budget focusing on this portfolio outlines in detail the priorities on which the portfolio’s budget will be spent, including the rural economy (in particular through the SRDP), Scotland’s food and drink industry, the Scottish Government’s Main Research Providers, meeting climate change and waste targets, increasing the extent of woodland cover, championing rural and crofting communities and flood prevention schemes.

In more detail, the 2011-12 Spending Plans include:

- Continued spending on the rural economy, including through the SRDP and Scottish Fisheries Fund (SFF); but fewer and more focused rounds of funding with £116.6 million of Scottish Government money and a further £116.6 million of EU money spent on the SRDP in 2011-12; overall the reduction in the national funds for the SRDP is £27.6 million, although this represents a total reduction of £50 million, given the associated reduction in EU money. It is critical that the capacity and momentum built up in rural areas over many years is not lost as a result of these funding cuts.
- A reduction in the budget for agri-environment measures of £9.4 million (£58.3 million to £48.9 million); plus reductions in other components of the SRDP including the Rural Priorities Scheme; funding for LEADER and for LFASS has been maintained; the budget for forestry has been increased.
- Continued investment in the National Food and Drink policy of £11.9 million (including £8 million through the SRDP) in 2011-12 recognising the sector’s major contribution to the Scottish economy;
- A reduction in the budget for Rural Enterprise schemes of £20.1 million (£34.7 million to £14.6 million) and for Rural Communities schemes of £10.2 million (£16.7 million to £6.5 million); there will also be fewer and more focused funding rounds and a review of the size of grants awarded to ensure that the benefits of these schemes are more widely spread;
A reduction in the budget for Programmes of Research of £11.8 million (£74.5 million to £62.7 million); the formation of three Centres of Expertise, focusing on Climate Change, Water and Animal Disease Preparedness and two Strategic Partnerships, covering Animal Science Excellence and Food and Drink;

A reduction in the budget for Marine Scotland of £6.5 million (£62.4 million to £55.9 million); for SNH of £7.2 million (£67.9 million to £60.7 million); for SEPA of £4.9 million (£44.3 million to £39.4 million); for the FC of £7.4 million (£55.1 million to £47.7 million); public bodies are also under pressure to become leaner and more efficient in their operating systems.

Recent Scottish Environment LINK (SEL14) (2011) commentary on the cuts to the SRDP, argued that environmental spend should be maintained given its importance for human health and wellbeing. It argues that cuts in this area will have significant long-term impacts and will compromise our ability to address problems such as climate change and biodiversity loss. In particular, SEL argues that, while the LFA scheme could help to maintain High Nature Value farming systems, it is not well designed to achieve this and thus SEL’s partner organisations are disappointed that the budget will remain at increased levels. SEL partners also argued that the Rural Priorities Scheme is a more effective way to target spend at environmental objectives and should be protected from spending cuts, although some redesign of the scheme to give higher priority to protected species and habitats and valued landscapes, for example, would be useful.

2.4.3 The Local Government portfolio budget

As Table 1 showed, the DEL budget for Local Government in Scotland will decline by 3.7% from 2010-11 to 2011-12, representing £286.9 million in resource spending and £151.4 million in capital spending15. The resources available to the public sector in Scotland will fall for at least 10 years, and it will not be until 2025/6 that spending levels will return to current levels, with £39 billion lost to the public sector in Scotland during this period (APSE November 2010).

As a proportion of Scottish Government spend, local government spend will remain fixed at the same level as 2010-11 at 34.5% (Herbert and Berry 2010). Since the council tax freeze was introduced in 2007 (resulting in static receipts from council tax), the proportion of funding that local authorities receive from the Scottish Government has risen. APSE (November 2010) argues that the council tax freeze effectively results in a situation where local government is more dependent on the Scottish Government, undermining its independence and value as an institution and as a provider of services. It argues that Councils are left with little or no discretion on funding services and are often left with no other choice but to raise income through fees and charges which can disproportionately hit low income families (APSE December 2010).

In determining the budget allocation for local authorities, the Scottish Government and COSLA agreed that local authorities would deliver a specified set of commitments. If they decided to not deliver on these commitments, their resource allocation will be reduced by 6.4% (or a further £426 million), potentially meaning reduced service levels (APSE December 2010). These commitments include: continued delivery of current Single Outcome Agreements; a council tax freeze for 2011-12; maintaining agreed policing levels; maintaining agreed student-teacher ratios and protecting teacher posts for probationers; delivery on the

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14 Scottish Environment LINK is the forum for Scotland’s voluntary environment organisations. It has over 30 member bodies representing a range of environmental interest. For more information, see: [http://www.scotlink.org](http://www.scotlink.org).

15 In terms of Total Managed Expenditure (TME) the Local Government Budget will decrease from £11,986.3 million in 2010-11 to £11,548.0 in 2011-12 (Herbert and Berry 2010).
commitment relating to free personal care; and continuing to work to deliver the Carers and Young Carers Strategies at local level. Each council was free to determine its own policy position and this had to be communicated to the Scottish Government before 21st December 2010. The provisional allocations to local authorities were announced by John Swinney MSP (Cabinet Secretary for Finance and Sustainable Growth) in early December 2010 and consultations between the Scottish Government and local authorities then took place. Following their provisional acceptance, all Scottish councils formally accepted the terms of the COSLA-Scottish Government deal on 1st March 2011. The deal effectively reduces average local authority spending cuts to 2.6% (representing about £450 million across Scotland), which the Scottish Government argues is a better deal than that achieved by local government in England16. The Scottish Government will now table an amendment to the agreed Local Government Finance Order which will seek Parliament’s approval for the remaining funding to local government, following the Council’s formal acceptance of the deal17. How the money is distributed between local authorities will be decided under consultation with COSLA under the usual arrangements.

Estimates of funding cuts, job losses and service cut-backs in the public sector have varied since the extent of the required public sector savings became clear. For example, the BBC conducted a survey of all 32 Scottish local authorities in June 2010 to ask about anticipated job losses and 30 local authorities responded. None of the councils said that they were planning compulsory redundancies, with most saying that savings would happen through natural turnover, retirement and voluntary redundancy. North Ayrshire in particular was expecting substantial losses (about 1,000 staff). Overall, the BBC predicted 10,000 job losses across the ten councils who could put a number on how they expected their staff numbers to change in the next few years18 (BBC News 16th June 2010).

In February, the BBC published a table showing all Scottish local authority budgets for 2010-11 and 2011-12 enabling a comparison of how the budget changes over the two years. Table 2 is based on this information and shows the budgets for all of Scotland’s rural local authorities (according to the Randall definition which classifies 14 local authorities as rural19).

Across the rural local authorities, the change in the budget from 2010-11 to 2011-12 varies considerably with one local authority (Perth and Kinross) seeing a slight rise in its budget. The largest decreases are in Aberdeenshire, Argyll and Bute and Moray with reductions of 4.7% or more. Aberdeenshire and Argyll and Bute are facing particularly high budget cuts, well above the 2.6% average. The exact detail of how these budget changes will play out in terms of job and service cuts is yet to be worked out in each local authority area.

APSE (November 2010) notes that, although local government has a strong track record with regard to efficiencies, much of the 'low hanging fruit' has been taken in previous efficiency efforts, and it will be hard to achieve further efficiency savings without cutting services. It is also fair to say that the Budget and Spending Plans for 2011-12 are short-term in nature (covering one year only), which will hamper the ability of local authorities (and other public sector organisations) to undertake effective strategic planning. This is partly due to the forthcoming Scottish election in May 2011 after which it is possible that the Budget will have

16 A formula is used to calculate grant settlements, which is influenced by population and its associated movement in particular areas. In general, commuter areas where the population has been rising have fared better than Scottish cities, although a number of local authorities experiencing depopulation have also performed relatively well in terms of their grant settlement (APSE December 2010). APSE, amongst others, have argued that the formula should be needs-driven, particularly in relation to concentrated poverty and deprivation on the basis that the financial impact on frontline services and local economies will be significant and potentially greater than the allocation implies, particularly as areas struggle with the continuing impacts of the recession.

17 For more information please see: http://www.scotland.gov.uk/News/Releases/2011/03/01155027.

18 Stirling, East Dunbartonshire, East Renfrewshire, Glasgow City, North Ayrshire, North Lanarkshire, South Lanarkshire, West Dunbartonshire, Fife and West Lothian.

19 The Randall definition is based upon population density with a density of less than one person per hectare considered rural.
to be re-aligned. Figures for the financial years 2012-13 and 2013-14 will be issued in September 2011.

Table 2: Scottish rural local authority budgets 2010-11 and 2011-12

<table>
<thead>
<tr>
<th>Rural Local Authority</th>
<th>2010-11 Budget (£m)</th>
<th>2011-12 Budget (£m)</th>
<th>% change 2010-11 to 2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeenshire</td>
<td>588.1</td>
<td>543</td>
<td>-7.7</td>
</tr>
<tr>
<td>Angus</td>
<td>262.953</td>
<td>257.612</td>
<td>-2.0</td>
</tr>
<tr>
<td>Argyll and Bute</td>
<td>277.6</td>
<td>260</td>
<td>-6.3</td>
</tr>
<tr>
<td>Dumfries and Galloway</td>
<td>383.2</td>
<td>375.9</td>
<td>-1.9</td>
</tr>
<tr>
<td>East Ayrshire</td>
<td>340</td>
<td>337</td>
<td>-0.9</td>
</tr>
<tr>
<td>Highland</td>
<td>604</td>
<td>598.7</td>
<td>-0.9</td>
</tr>
<tr>
<td>Moray</td>
<td>203.3</td>
<td>193.8</td>
<td>-4.7</td>
</tr>
<tr>
<td>Orkney Islands</td>
<td>85.6</td>
<td>83</td>
<td>-3.0</td>
</tr>
<tr>
<td>Perth and Kinross</td>
<td>331</td>
<td>333</td>
<td>0.6</td>
</tr>
<tr>
<td>Scottish Borders</td>
<td>268.9</td>
<td>266.8</td>
<td>-0.8</td>
</tr>
<tr>
<td>Shetland Islands</td>
<td>Not known</td>
<td>121.9</td>
<td>-</td>
</tr>
<tr>
<td>South Ayrshire</td>
<td>269</td>
<td>265.8</td>
<td>-1.2</td>
</tr>
<tr>
<td>Stirling</td>
<td>218</td>
<td>212.2</td>
<td>-2.7</td>
</tr>
<tr>
<td>Comhairle nan Eilean Siar (Western Isles)</td>
<td>123</td>
<td>117.9</td>
<td>-4.1</td>
</tr>
</tbody>
</table>

Source: BBC News 17th February 2011
Chapter 3: The impacts of the funding cuts on rural Scotland

3.1 Summary

- Rural Scotland has particular features which mean that the impact of the public sector cuts may be felt differently to urban areas, including: a small private sector; a population which is growing and ageing faster; low levels of gross pay; longer distances to travel to basic services and a higher cost of provision; higher prices for transport and heating fuel and for many food commodities; higher private car ownership; higher levels of (extreme) fuel poverty; and higher rates of formal volunteering.
- While overall job losses may be higher in urban areas there are concerns about the ability of rural areas to cope with the cuts as the private sector is smaller. Several rural local authorities are particularly at risk of job losses, including the Western Isles, Moray and Argyll and Bute (Local Futures 2010).
- Pay levels in rural areas are generally lower than in urban areas, and there is a risk that job losses and pay freezes for rural-based public sector workers may widen the gap further. Local spending in rural economies will also be reduced.
- Rural households face higher costs for food and fuel, and many more rural households are classed as being in (severe) fuel poverty. Cuts to welfare payments will reduce the income available to the poorest rural households at a time when there is considerable upward pressure on household spending.
- The Scottish Government has announced extra investment in the building of affordable housing but concerns remain over the poor affordability of private sector housing in rural Scotland, the decrease in the new affordable homes target and changes to housing benefit which may mean some rural families are struggling to pay their rent, again at a time of increasing household spending.
- There is no systematic evidence on the impacts of public sector cuts on service provision, and these are likely to vary across local authorities depending on council priorities and the scale of the cuts. Some services may be particularly at risk in rural areas, such as public and community transport schemes and social care schemes which provide small, but critical, amounts of help to enable older people to remain independent in their own homes.
- Cuts in the defence budget will hit some rural localities hard. Moray Council has already appealed for help to improve local transport links in the light of the closure of RAF Kinloss in order to try and improve the attractiveness of the area to new business.
- Calculating an overall Vulnerability Index for local authorities in Scotland based on four indicators, shows considerable variability in the performance of rural local authorities. Some rural authorities are highly vulnerable to further downturn associated with public sector cuts, including the Western Isles, Argyll and Bute and Moray. Others, including Aberdeenshire, the Shetland Islands and Perth and Kinross, show much lower vulnerability.

3.2 Introduction

Chapter 2 of this report set out the 2011-12 spending plans of the UK and Scottish Governments, focusing particularly on the Rural Affairs and Local Government portfolios in Holyrood. This chapter provides a more detailed, in-depth exploration of the impacts of the cuts for rural areas across Scotland, with the analysis based around a number of key themes: jobs and pay, housing, welfare, services, and an index of the overall vulnerability of local authorities. Before the thematic analysis, however, the chapter first sets out some of the
key characteristics of rural Scotland which will shape the ways in which the spending cuts impact specifically on rural businesses and communities.

3.3 The key features of rural Scotland

According to the Scottish Government’s core definition of urban and rural areas\(^20\), 94% of Scotland’s landmass and 18.7% of its population is rural\(^21\). Approximately 5.2 million people live in Scotland, with almost 1 million of them living in rural areas.

The population across all of Scotland has been increasing in recent years, but between 2001 and 2008, accessible rural areas experienced the greatest increase (10.1%), compared to an increase of 5.3% in remote rural areas and 0.7% in the rest of Scotland. Compared to the rest of Scotland, rural areas have a different age distribution with a much lower percentage of the population in the age bands 16-24 and 25-34, but a higher proportion in the older age bands, and especially at pension age. For example, remote rural areas have 24% of their population of pension age, compared to 20% in accessible rural areas and 19% in the rest of Scotland (The Scottish Government 2010c). Recent data (February 2011) shows that employment rates in rural Scotland are generally higher than in the rest of Scotland, while unemployment rates are lower. Rural Scotland as a whole had an unemployment rate of 3.5% in February 2011 (the rate was higher in Southern Scotland at 4.6%), compared to 5.5% in non-rural areas\(^22\).

The public sector is a critical provider of health and social care in rural areas, and it is important that such services continue to be available to the increasing numbers of older people living in rural areas. While many are fit and active, others are also dependent on the provision of medical and social care services locally to enable them to remain in their own homes. Cut-backs may mean many more older people being forced into care homes or hospitals (thus increasing the cost to the NHS).

One of the key features of rural Scotland, mentioned earlier, is the large proportion of the population which is employed in the public sector. Indeed, the public sector is the mainstay of many of Scotland’s rural communities, particularly in remote and island areas where few alternatives exist (McBain et al. 2010). Data from 2010 indicates that the public sector makes up 18% of employment in remote rural Scotland, 20% of employment in accessible rural Scotland and 26% of employment in the rest of Scotland. Indeed, Scotland as whole has a slightly higher proportion of employment in the public sector than England (RSN 2010), suggesting that job cuts may potentially have a higher impact north of the border. There are localities in rural Scotland where public sector employment is particularly high, such as the area close to RAF Kinloss in Moray where defence-related employment is important. Rural Scotland also has a smaller tertiary sector than the rest of Scotland, with this activity making up 59% of employment in the rest of Scotland, 47% of employment in remote rural Scotland and 46% in accessible rural Scotland.

While the types of jobs and services available in the public sector are hugely varied, in many rural areas, the public sector is a critical provider of skilled (often graduate level) jobs which offer some training and career progression opportunities, and which are particularly important in retaining young people and attracting them back to an area after education. The CRC (2010a) notes the importance of the public sector as a source of part-time employment for women in rural areas (see also South West Regional Observatory 2010). The paper also notes the other contributions made by the public sector to local economies, including through

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\(^{20}\) This defines rural as a settlement of 3,000 or less people. The classification also distinguishes between ‘accessible’ and ‘remote’ rural areas based on drive time to a settlement of 10,000 people or more.

\(^{21}\) The Randall definition classifies 89% of Scotland’s landmass and 29% of its population as rural.

local sourcing, providing apprenticeships and work experience placements for young people, supporting local charities and groups and providing premises for wider community use (such as schools, libraries and GP surgeries).

The current pressure on public sector jobs is coming at a time when households are facing increased costs for basic commodities including food and fuel, and when reforms are planned to welfare programmes. A rise in the price of a basic household good such as fuel (either for heating or transport) is likely to affect rural households more severely for a number of reasons. First, rural households tend to spend a higher proportion of their income on fuel for transport. Over 50% of households in remote and accessible rural Scotland spend £100 or more per month on fuel for their cars, compared to 37% in the rest of Scotland (The Scottish Government 2010c). Second, rural houses tend to be older and larger and therefore less energy efficient and more costly to heat. In remote rural areas, 18% of households have poor energy efficiency, compared to 2% in the rest of Scotland and 9% in accessible rural areas. Third, a high proportion of rural households are not on mains gas supplies and so rely on oil for central heating. In terms of fuel poverty, 21% of households in remote rural areas are classified as being in extreme fuel poverty (spending more than 20% of income on fuel), compared to 10% in accessible rural areas and 6% in the rest of Scotland with 29% of households in remote rural areas in fuel poverty (spending more than 10% of household income on household fuel), compared to 21% in accessible rural areas and 18% in the rest of Scotland.

These figures on spending on domestic and transport fuel can be compared with data on household incomes and wages. Overall, for males and females, gross annual pay levels are lowest in remote rural Scotland. Data on annual income levels shows a varied pattern across Scotland but overall there is a higher percentage of households in rural areas with a net annual household income of £30,001–£40,000 and over £40,000 especially in accessible rural areas, to a large extent reflecting the influence of commuting (The Scottish Government 2010c).

In terms of access to services, as expected, people in remote rural areas are less likely to live within a 15 minute drive time to key services than those living elsewhere in Scotland. The largest differences in the proportions of people in different areas living within 15 minutes drive time of a key service is in relation to GPs, petrol stations, secondary schools and retail centres (The Scottish Government 2010c). When the 15 minute drive time is by public transport, the accessibility of rural residents to key services reduces dramatically, highlighting the dependence of rural dwellers on private transport. Only 57% of residents in remote rural Scotland are within six minutes walk of the nearest bus stop, compared to 89% in the rest of Scotland and 68% in accessible rural Scotland. In terms of car ownership, 42% of households in remote rural Scotland and 45% of households in accessible rural Scotland have two or more cars available for private use, compared to 22% in the rest of Scotland (The Scottish Government 2010c).

The Scottish Government (2010c) reports the higher proportions of people living in remote rural and accessible rural locations who report that their neighbourhood is a very good place to live when compared with the rest of Scotland (80%, 69% and 51% respectively). In particular, remote and accessible rural residents place emphasis on the safe environment and the sense of community and friendliness of local people. The data also reveals the higher proportions of people who gave up time in the last 12 months to volunteer in remote rural areas compared to other parts of Scotland. The highest rate of volunteering was observed for people aged 16-64 in remote rural Scotland (The Scottish Government 2010c).
3.4 Jobs and Pay

Public sector employment in Scotland rose by approximately 80,000 jobs from 2000 to 2010 (Local Futures 2010). In Q4 2010, there were 595,800 people employed in the public sector in Scotland, a decrease of 18,000 (2.9%) since Q4 2009\textsuperscript{23}. The local government sector in Scotland alone employs approximately 270,000 people at a cost of £6.8 billion, making up over 50% of the entire local government block grant.

As mentioned in Section 3.3, the public sector makes up 18% of employment in remote rural Scotland and 20% of employment in accessible rural Scotland, thus any loss of jobs in this sector will have a significant impact on rural communities. Although urban areas might face higher absolute numbers of job losses, in rural areas where the private sector is weaker, the impact is likely to be felt most.

A Local Futures barometer produced in 2010\textsuperscript{24}, charts the rise in public sector employment in the UK over the last decade, highlighting the local economies that are most dependent on public services as a source of employment and identifying the areas most vulnerable to job losses (Local Futures 2010). The analysis confirms the highest numbers of public sector jobs are in urban areas, including Glasgow and Edinburgh, although some rural areas, including the Highlands and Islands, Dumfries and Galloway and the Scottish Borders, also have high numbers and proportions of public sector jobs. The Local Futures work identifies the Western Isles as being in the top 10 local authority districts in terms of its share of employment in the public sector (42.6%). Figures 1 and 2 are taken from the 2010 Local Futures report and show the proportion of employment in the public sector and the estimated public sector job losses as a proportion of the overall employment base. Figure 2 shows that several rural local authority districts in Scotland will lose 2.67-4.46% of their employment as a result of the public sector job cuts (including the Western Isles, Moray and Argyll and Bute). It is also important to consider the multiplier effects of reduced employment in the public sector which will spread out to wider local economies as public sector contracts reduce in value or dry up while demand for private sector goods and services from the public sector itself and from public sector workers via consumption economies will be affected. Moreover, while the UK Coalition Government argues that the private sector will expand to absorb job losses in the public sector, the extent to which the smaller private sector in rural areas can do this is more questionable.


\textsuperscript{24} It should be noted that these estimates of where the impacts of public sector expenditure cuts were likely to be largest were produced in July 2010, prior to the CSR.
Figure 1: The proportion of employment in the public sector (2009)

Source: Local Knowledge; ABI, 2009. This map is reproduced with permission from Local Futures and is taken from their 2010 report (Local Futures 2010).
Figure 2: Estimated public sector job losses by 2016 as a proportion of overall employment base

Source: Local Knowledge; ONS; OBR, 2010. This map is reproduced with permission from Local Futures and is taken from their 2010 report (Local Futures 2010).

As mentioned earlier in this report, there has been much speculation about the potential direct job losses from the public sector funding cuts. APSE (August 2010) warned of up to 60,000 jobs being lost from the public sector in Scotland which would have a substantial impact on the economy particularly in deprived parts of Scotland which are highly dependent both on public sector employment and on public services. In June 2010, the BBC estimated a total loss of 10,000 jobs across 10 councils that responded to their survey of local authorities (albeit largely through natural turnover, retirement and voluntary redundancies rather than compulsory redundancies25) (BBC News 16th June 2010). A more recent BBC estimate

25 Although a BBC News article on 6th April 2011 highlights that some councils (including Moray and East Ayrshire) are having to made limited numbers of compulsory redundancies in order to balance their budgets (BBC News 6th April 2011). The BBC notes that the relatively small numbers across relatively few councils, suggests
suggested 13,500 job losses across Scottish councils over the next few years (BBC News 6\textsuperscript{th} April 2011). Other authorities indicated that it might be possible to reduce jobs through other means, including service re-design (BBC News 5\textsuperscript{th} July 2010). One such method of re-design may be through the delivery of more services online, which, while potentially helping to deliver services to those in remote rural locations with adequate IT access and skills, may result in reduced labour requirements.

The Scottish Budget 2011-12 includes a reference to the need to preserve employment levels within the public sector, as a prerequisite to economic growth. The Scottish Government has indicated that it would like to see current no-compulsory redundancy commitments honoured by employers, although APSE (November 2010) argues that this will be difficult to deliver in practice given the expenditure restraints and the need for further efficiency savings. The details of the plans that local authorities have to deal with the funding reductions are yet to be announced, although on 10\textsuperscript{th} February 2011, some local authorities did announce they have agreed their spending plans, including:

- Orkney Islands Council – will reduce its workforce by about 80 posts over the next year (although half of those posts are vacant);
- Moray Council – expects to lose about 75 posts over the next year;
- East Ayrshire Council – expects to shed 167 posts, nearly 50 of which have already gone in this financial year through voluntary redundancy (BBC News 10\textsuperscript{th} February 2011).

As noted earlier, it also important to remember that job cuts in the public sector may affect some groups in the population more than others. The public sector is a particularly important source of employment for women in rural areas, for example, with many working part-time. In Scotland, 64% of public sector workers are female compared with 43% in the private sector (Bell 2010), thus reductions in public spending are likely to have a more adverse affect on females than males (to date, it has largely been the private sector that has suffered during the recession, and job losses and slow wage rises have mainly affected men). Moreover, it is important to note that while the highest numbers of public sector job losses may be in urban areas, many of these workers live in rural locations which will feel the impacts of reduced local spending.

The announced pay freezes will also negatively affect local spending levels. Rural areas have traditionally had lower average wage levels than urban households (see Section 3.2) and public sector pay freezes may serve to widen the gap further. Spending will also be reduced amongst those workers who live in rural areas but commute to urban centres for work. Moreover, this is happening at a time of increasing costs for basic household commodities such as food and fuel. Like efficiency savings, pay restraints offer the possibility of maintaining public services and indeed public sector employment even when fewer resources are available. However, freezing pay may also have negative consequences, including increased staff turnover, poor industrial relations and reduced willingness to improve performance. Scottish Borders Council has recently announced that its staff earning more than £21,000 per annum have accepted a pay freeze for three years (staff earning less than £21,000 will see an increase in their wages this year but their pay will be frozen from 2012-13) in return for a guarantee of no compulsory redundancies (BBC News 30th March 2011).

The public sector pay freeze will affect those in middle age earning over £21,000, while those in younger age groups tend to fall below the £21,000 threshold. It is also true that in the public sector, over 70% of those earning less than £21,000 per annum are female (in the

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that most councils have been successful in making cuts through voluntary redundancies and redeploying threatened workers. The figures do not include people working for projects which lost council funding or people working for organisation which provided services to councils under contract.
private sector the distribution is much more balanced). The Scottish Government is also seeking to impose downward pressure on the pay of senior personnel and review bonus payments. Alongside the pay announcement was a recognition that all employees in the public sector should receive a living wage as opposed to a minimum wage (to be set at £7.15 per hour).

### 3.5 Welfare

The UK CSR included plans by the Coalition Government to cut the UK welfare budget by £7 billion, on top of a £11 billion cut announced in the June 2010 Budget. The UK Government’s welfare reform plans included two key elements. First, the Work Programme which will be in place by summer 2011 and will be a single integrated package of support providing personalised help for everyone out of work, regardless of the benefit they claim. Second, a re-assessment of Incapacity Benefits (including disability, mobility and care payments) by Jobcentre Plus, starting in October 2010 which will decide if claimants are entitled to the new Employment and Support Allowance. Other changes to the benefits system include a cap on housing benefit and the withdrawal of child benefit from higher rate tax payers. While the Coalition Government announced that this had resulted in a 19% cut in departmental budgets over the next four years (instead of the 20% cut announced in Labour’s plans) and would help to improve incentives to return to work and increase fairness, the reality may mean a much reduced income for those in receipt of these benefits, at a time when food and fuel prices are high. These cuts have led to the claims (discussed earlier) that those on low incomes and dependent on benefits and on public services more generally, will be hardest hit by the welfare budget cuts.

In Scotland alone, the reductions in welfare spending will amount to approximately £1.7 billion per annum by 2014-15. Put in context, if cuts in welfare spending on this scale are achieved in Scotland, then the effect on public spending will be larger than the reductions in Scottish Government spending outlined in the 2010 CSR (Bell 2010). Carl Emmerson of the Institute of Fiscal Studies has estimated how changes in the UK tax and benefit system as laid out in the UK CSR would affect Scottish households and his analysis shows that the results for Scotland do not differ markedly from those for the UK as a whole (which is not surprising given that the UK and Scottish employment and industrial structures do not substantially differ). The key finding is that the largest cut in net income as a result of the changes to the tax and benefit system will be faced by those in the poorest income quintile. The size of the effect on net income declines with increasing income, except for the richest group, some of who will be hit by higher income tax and national insurance rates (Bell 2010).

In September 2010, the Scottish Local Government Forum Against Poverty and Rights Advice Scotland announced that changes to the welfare system would take £500 million from the Scottish economy resulting in more than 10,000 job losses. It argued that the cuts would reduce spending power among the poorest, most vulnerable and those with disabilities, and that these groups tended to spend more money locally, thus small businesses would suffer. There would also be greater demands on hard-pressed council services (BBC News 10th September 2010).

There is some evidence that rural areas see higher numbers of enquiries relating to benefit and tax issues, housing and fuel debt. Evidence presented by Citizens Advice Scotland (CAS) to the UK Parliament Select Committee on the ‘impact of the changes to housing benefit announced in the June 2010 budget’ argued that those on benefits seeking employment but who are unable to find employment within one year would be penalised by

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26 Carl Emmerson from the Institute of Fiscal Studies, discussing UK public finances at the David Hume Institute, Monday 25th October 2010.
seeing their housing benefit entitlement reduced and may be forced to move home, become homeless or pay the rent deficit from their Job Seekers Allowance (JSA). The CAS reported that current housing benefit claimants will see a sudden and extensive drop in their monthly income which will lead to difficulties in making payments and may result in more people being made homeless. More broadly, CAS reported an increase in issues being brought to Citizens Advice Bureaux, mainly concerning benefits (which made up over a third of all issues) and debt (CAS 2010).

In rural areas, fewer employment opportunities may mean that unemployed individuals are likely to have to leave the local area to find work, or remain unemployed for longer. On the other hand, the availability of seasonal jobs (for example, in agriculture and tourism) may mean that individuals are able to find temporary employment during periods of unemployment. At the same time, there is also evidence that there may be rural individuals not claiming benefits to which they are entitled due to the fear of being stigmatised, a lack of information about the benefits available or a sense that they can ‘get by on less’. The data on JSA claimants reported later in Section 3.9.2 (part of the Vulnerability Index analysis) shows that on average the rate of claiming JSA is lower in rural areas than in urban areas, with the average rate for rural local authorities (using the Randall definition) at 3.3%, compared to 4.6% in urban local authorities.

It is also worth mentioning the two open-ended commitments made by the Scottish Government (both of whom are skewed towards supporting older citizens): concessionary fares and free personal care. Concessionary fares now make up more than 60% of the budget spent on Enterprise, Energy and Tourism (over £0.25 billion). These are based on entitlements and are demand-driven and thus the costs are likely to increase as the population ages. Free personal care, based on those assessed as needing personal care receiving an entitlement to it, represents a growing cost commitment for the Scottish Government, again as a result of population ageing. In future, both of these schemes may come under pressure from funding cuts. While cut-backs in the concessionary fare scheme are likely to most heavily impact on those in urban locations (as this is where the scheme has the biggest impact), budget reductions for free personal care may impact harder on rural older people due to the higher costs of operating the scheme in rural locations. More rural older people may be forced to leave their own homes if the scheme is curtailed.

### 3.6 Housing

Overall, the Housing and Regeneration budget in Scotland has been cut from £488 million in 2010-11 to £393.8 million in 2011-12 (in cash terms), a decline of £94.2 million (19.3%). In real terms this is a decrease of £101.5 million or 20.5%, one of the largest decreases amongst Level 2 budget lines. Decreases will occur across all elements of the Housing and Regeneration budget and capital spending is forecast to decrease by £81.1 million (25.3%) in cash terms (26.7% in real terms) from 2010 to 2011-12 (Herbert and Berry 2010).

In the 2011-12 Budget (The Scottish Government 2010b), the Government announced the following measures, to:

- Introduce a new £50 million competitive funding arrangement to allow all suppliers to provide new affordable homes;
- Expand the National Housing Trust initiative to maximise the delivery of new affordable homes;
- Build on the developed New Supply Shared Equity pilot scheme;
- Maintain the Energy Assistance Package and Home Insulation Scheme;
- Use the new £50 million Scottish Joint European Support for Sustainable Investment in City Areas (JESSICA) Fund to target sustainable investment in the
most disadvantaged areas and then recycle gains into further projects in the future; and

- Give transitional support to tenants and homeowners to improve their options in the economic downturn – including the Home Owners Support Fund, Wider Role Fund and Open Market Shared Equity Programme focused on helping existing social tenants”.

While measures to support social tenants and to address energy housing insulation issues are welcome, it remains to be seen how these will impact on rural and urban areas in Scotland. The Budget also makes the following statements with regard to Housing:

“We will support economic growth with an extra £600 million investment in new affordable housing supply through use of £55 million of new government funding, helping to support around 7,500 jobs. We will build around 6,000 new affordable homes, including for new social tenancies.”

“In 2011-12 we will meet the commitments for housing and regeneration capital investment which commenced during the recession and continue to support the economy and protect the supply of new homes. This can be achieved jointly with partners, using less taxpayer investment for each new home by leveraging more funding from other sources” (The Scottish Government 2010b).

6,000 affordable homes is lower than in previous years (the number of planned approvals under the Affordable Housing Investment Programme [AHIP] in 2010-11 was 7,105, in 2009-10 was 8,142 and in 2008-09 was 6,506 (Herbert and Berry 2010). It should also be noted that Section 75 agreements operate well with regard to supplying affordable housing alongside open market housing in buoyant economic times, but at a time when construction is down, this will also mean less affordable homes being built. However, more positively for some parts of rural Scotland, the Scottish Government has made funding available to local authorities to increase the construction of council housing (although several rural local authorities did not apply for this funding, including Dumfries and Galloway, the Scottish Borders and the Western Isles).

The Scottish Borders Council Annual Single Outcome Agreement (SOA)27 report to the Scottish Government in 2010 (Scottish Borders Council 2010)28, recognises the importance of good quality affordable housing in the area, and states that this remains a priority for local partners. The Council acknowledges that reductions in resources will make it increasingly difficult to meet the demand for affordable housing, but the Local Housing Strategy Group continues to seek imaginative ways of generating new developments and making the best use of existing housing stock. The Council also acknowledges that their target of 100 new affordable housing units per year is challenging and that in 2009-10, the result of 38 units is low. Similar concerns were also raised in the 2009-10 annual report of Dumfries and Galloway Council (Dumfries and Galloway Council 2010) and in Perth and Kinross where the cutbacks to Registered Social Landlord funding were also noted as potentially reducing the supply of affordable homes in the future (Perth and Kinross Council Community Planning Partnership 2010).

Ensuring a good supply of affordable homes is critical in rural Scotland29, where the average house price (£165,433) is now 20% higher than in urban Scotland (compared to 10% higher in 2000). Scotland has seen the biggest rise in rural property prices (130%) in Great Britain over the last decade, although it has also recorded the largest rural house price fall in the

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27 Through SOAs, local authorities and community planning partnerships set out strategic priorities for their local area, identify needs, commit to the delivery of local outcomes and monitor progress towards achieving them.

28 Information on specific councils and their SOA reports in 2010 has been adapted from work by Clare Hall (SAC) for the Scottish Government (Hall 2011).

29 See Skerratt et al. (2010), Sections 1 and 3.
past year (-2.1%). Rural house price affordability has deteriorated in the last ten years with rural house prices in 2010 on average 5.5 times average gross annual earnings (compared to 4.6 times in urban areas). The lack of affordable housing in rural Scotland means that many young people are forced to leave rural areas (the Bank of Scotland [2010] reports that there are significantly fewer first time buyers in rural areas) or are left homeless (perhaps resorting to sleeping on friends’ sofas to remain in the local area) and that rural businesses may be prevented from expanding as they are unable to house a workforce on typically lower rural wages.

3.7 Services

In local authority areas, the planning and delivery of local service provision is the responsibility of Community Planning Partnerships (CPPs). A number of organisations are statutory partners in these, including the police, local authority, fire and rescue service, enterprise agency, local authority, business representatives and other public bodies such as SNH. In 2007, the Concordat between the Scottish Government and Local Government set out the terms of the relationship between the two with Scottish Government funding available to individual local councils over the period 2008-9 to 2010-11 dependent on the delivery of an SOA.

As noted earlier in the report, the delivery of services in rural locations is more costly due to the distances involved and the relative sparsity and low numbers of people to be covered. Many rural services survive on a shoestring so even small budget cuts can seriously undermine them. It is critical that policy makers at all levels appreciate the particular challenges faced by service providers in rural areas which mean that cuts could have devastating impacts, especially where the services affected serve the most vulnerable. These may be older or disabled people who are relatively immobile, or those on low incomes without access to a private car or adequate public transport to take them to alternative service delivery points. Given the ageing population in rural areas, there is likely to be increasing demand for health and social care services in future and this must be planned for by local authorities, even in these times of funding cuts. Moreover, the personal and household impacts of the recession are likely to mean high demand for some services, including citizens advice, drug and alcohol abuse, domestic and racial abuse and homelessness.

There is little systematic evidence of the impact of public sector spending cuts on service provision in Scotland but examples are starting to emerge of impacts, or potential impacts. There has been much speculation about which services are likely to be cut first when local authorities are faced with budgetary cuts. Discretionary (but essential) services are likely to be under more pressure than statutory spending, threatening services such as community transport, services for young people, libraries and local environmental management and improvement (CRC 2010a).

Work by the Joseph Rowntree Foundation (2011) raised concerns that public spending cuts would have a major impact on social care, at a time of population ageing. Local authorities may be forced to cut support for people with moderate needs, increase charges and reduce care provision. Benefits of investing in a ‘little bit of help’ are realised over many years so it is hard to prove their impact and protect funding for often small-scale initiatives in the face of need for cuts. But cutting prevention measures will have negative long-term impacts, particularly for health services. Some community and voluntary sector groups who provide

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30 For more information, see The Improvement Service (2010).
31 More will be known after the May 2011 Scottish election when local authorities produce their SOAs reports for the 2010-11 financial year, and in Spring 2012 when the reports are produced for the 2011-12 financial year. The Rural Policy Centre is planning to continue to track the rural impacts of the spending cuts in future.
such help may struggle to survive in the future and it may be harder to involve older people in designing, delivering and evaluating services. Continued investment in small-scale solutions, which can provide older people with the little bit of help they need to maintain relationships, activities and health, is critical to reducing the long-term care bill.

The Campaign for Better Transport announced in February 2011 that two thirds of local authorities in England were planning major cuts to their bus budgets, with some councils even planning to end all subsidised services. The Local Government Association has also warned that many bus routes would disappear as a result of government cutbacks, with rural, hospital, evening and weekend bus services regarded as being most at risk. The Campaign argued that cutting these services would hit the poorest and most vulnerable hardest (BBC News 3rd February 2011b). It remains to be seen how transport routes in rural Scotland will be affected by funding cuts.

Scottish local authorities have begun to announce details of their 2011-12 budgets in recent months, and it is becoming apparent that, although some services will be protected, many service delivery budgets will be cut (BBC News February 10th 2011a, b). For example:

- South Ayrshire Council – the budget includes £9 million in efficiency savings, including £250,000 through primary school rationalisation, although the council will also spend an additional £1.5 million on its roads;
- Scottish Borders Council – agreed to shelve a £5 million plan for road realignment on the A72; cancelling infrastructure programmes such as this may reduce the competitiveness of an area, its ability to attract new inward investment and thus its ability to respond quickly to opportunities arising from economic recovery;
- Highland Council – a withdrawal of more than £300,000 from the National Centre of Excellence in Traditional Music in Plockton; closure of 14 public toilets and restricted opening times at others to save £320,000 over the next two years (BBC News 18th March 2011b);
- Argyll and Bute Council – an agreement to increase charges for its services and reduce budgets available for non-essential functions such as travel and venue hire to release funds to protect frontline services; removal of the library service in Lorn (although those in Tarbert, Cardross, Rosneath and Lochgilphead will continue); agreement to continue providing a £60,000 grant to CAB; and rejected proposals to close public toilets;
- East Ayrshire Council – an increase in council rents; but a planned reduction in school transport was dropped; breakfast clubs will be retained on a ‘use it or lose it’ basis; and the Council will also create a Business Enterprise Fund of up to £1 million to help school leavers become ‘business ready’.

Other local authorities have suggested a range of ways in which they will implement innovative funding solutions. Argyll and Bute for example have identified that they will find new and smarter ways of utilising core and leveraging maximum matched funding, develop innovative funding methods, such as community trusts linked to renewable energy opportunities, and encourage private sector leverage and investment in the area, such as private sector investment in shared infrastructure such as roads and Section 75 agreements (Argyll and Bute Council 2010). Third sector organisations are also being asked to help local authorities with the delivery of many vital services (though this sector too is facing its own budgetary pressures).

The Scottish 2011-12 Budget confirmed the establishment of a ‘Commission on the future delivery of public services’ which is tasked with reviewing the make-up of the public sector and offering recommendations as to how it might be reconfigured. The Christie Commission will focus on the future provision of public services, providing sustainable public services, providing public services which will deliver positive outcomes and examining current structures, including roles, functions and service responsibilities (APSE November 2010).
Subject to the outcome of the Scottish Parliament elections in May, the Christie Commission will report in June 2011.

3.8 Defence spending

There are specific parts of Scotland where defence-related employment makes up a significant proportion of local employment, including Moray which is home to two RAF bases (Kinloss and Lossiemouth) and Fife, which is home to RAF Leuchars. Cuts in the defence budget (made in Westminster) will profoundly affect localities such as these. The UK Government has confirmed that RAF Kinloss will cease to operate after 31 July 2011 and the futures of RAF Lossiemouth and RAF Leuchars are still uncertain (an announcement will be made after the Scottish elections). In response, Moray Council and local businesses and communities have launched an action plan to stimulate the local economy in response to fears about the impact of the RAF job cuts and subsequent reductions in local economy activity and spending (BBC News 18th March 2011a). Moray Council has also appealed for help from both the Scottish and UK Governments to improve transport links in the local area, including a series of upgrades to main trunk roads and to train services (BBC News 9th March 2011).

3.9 Local Authority Vulnerability Index

3.9.1 Introduction

Terms such as vulnerability and resilience are being widely used in the context of current debates around the capacity of local, regional and national economies, and indeed the global economy, to deal with the economic recession and the pressure on public sector budgets. In the context of this report, resilience can be thought of as the ability of an area, such as a local authority, to withstand the ‘shocks’ associated with large-scale public spending cuts. Some local authority areas, as a result of a variety of factors, including a small working age population or a high proportion of people working in the public sector, may be highly vulnerable to public sector funding cuts. These cuts might take the form of direct job losses or more indirect effects such as the failure of private sector businesses which act as public sector suppliers.

In 2010, Rose Regeneration and the RSN produced a Vulnerability Index for all upper tier (151) and lower tier (201) local authority areas in England (Rose Regeneration 2010). The Index provides a simple assessment of the vulnerability of local economies to a new economic downturn driven by severe public expenditure cuts, based on four key criteria: the proportion of jobs in the public sector, the proportion of the overall population who are of working age, average (resident) earnings and the proportion of the population receiving Job Seekers Allowance (JSA). The Index provides a high level starting point for more detailed analysis to tease out the challenges facing particular localities and a ‘ready reckoner’ to assess the potential vulnerability of local economies based on their current position on these four indicators.

The analysis of English local authorities revealed a strong geographical patterning with the coastal and most geographically peripheral areas (including the Isle of Wight, County Durham, Northumberland and Cornwall) ranked as the most vulnerable and the more central,

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32 This work has been undertaken by Ivan Annibal at Rose Regeneration (http://www.roseregeneration.co.uk/) and Dan Bates at the RSN (http://www.rsnonline.org.uk/).
accessible areas (such as Oxfordshire, Cambridgeshire and Bedfordshire) ranked as the least vulnerable (Rose Regeneration 2010). These are areas where high proportions of public sector workers are compounded by low wage rates, high dependence upon benefits and small overall workforces. The analysis also showed a correlation between low wages and low numbers of JSA claimants. It might have been expected that high numbers of JSA claimants would be found in areas where wages are low as individuals choose to remain on benefits rather than take on low paid employment, however, this does not seem to be the case. This suggested evidence of an important informal economy in rural areas.

3.9.2 The Vulnerability Index in Scotland

Rose Regeneration and the RSN have also undertaken the analysis to produce the Vulnerability Index for Scottish local authorities. As a whole, Scotland has a 4\% higher dependence on the public sector than England: in England 26.4\% of the workforce is employed in the public sector, compared to 30.0\% in Scotland (Rose Regeneration and the RSN 2011), suggesting a greater vulnerability of the overall economy to public sector job and spending cuts. However, although direct comparisons are difficult due to the use of different approaches to define rural, it is important to note that rural local authority areas in England have a slightly higher proportion of jobs in the public sector compared to other types of area (29\% compared to 27\%) (Rose Regeneration 2010). In Scotland, 18\% of employment in remote rural areas and 20\% in accessible rural areas is in the public sector.

Slight modifications were made to the methodology used in Scotland. Although the same four indicators were used to construct the Scottish Index, weightings were applied (of 3 for the public sector jobs and average earnings indicators and 1 for the JSA claimants and working age population indicators) to reflect the relative importance of each indicator in terms of vulnerability. The higher ratings are given to the two factors that are likely to be most vulnerable to potential cuts. The proportion of the population of working age, though important to long-term resilience is likely to have less of an immediate impact in terms of vulnerability. The analysis used the following indicators:

- Proportion of all jobs in the public sector, weighting 3 (ONS Annual Business Inquiry data, 2008)
- Average earnings of local residents, weighting 3 (Annual Survey of Hours and Earnings, ONS 2010)
- Proportion of the population of working age, weighting 1 (ONS data, July 2009)
- The proportion of the population receiving JSA payments, weighting 1 (January 2011).

The analysis was carried out at unitary authority level in Scotland using the Randall definition of rural (based on population density, where less than one person per hectare is considered rural). According to this definition, there are 14 rural unitary authorities. Each local authority is ranked according to its position on each indicator and then the overall vulnerability ranking is produced for all Scottish local authorities (by applying the respective weightings for each indicator). Each rural local authority can also be compared to the average for all Scottish rural local authorities on the four indicators.

Table 3 shows the rankings of Scottish rural local authorities across the four indicators compared with all local authorities (Ranking\¹) and with all rural local authorities (Ranking\²). Each rural local authority is then ranked on an overall vulnerability index in relation to all other local authorities (Overall Ranking\³). Table A1 in the Appendix provides the rankings of all 32 Scottish local authorities against each other for the four indicators separately and in terms of the overall ranking to allow for a more comprehensive urban and rural local authority comparison.
Table 3: Vulnerability Index for Scottish Rural Local Authorities

<table>
<thead>
<tr>
<th>Rural Local Authority</th>
<th>Average Weekly Earnings</th>
<th>% population of working age</th>
<th>% of population receiving JSA</th>
<th>% workforce in the public sector</th>
<th>Overall Ranking $^1$</th>
</tr>
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<tbody>
<tr>
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<td>Ranking $^1$</td>
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<td>Ranking $^1$</td>
<td>Ranking $^2$</td>
<td>Ranking $^1$</td>
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<tr>
<td>Aberdeenshire</td>
<td>29</td>
<td>13</td>
<td>19</td>
<td>13</td>
<td>31</td>
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<tr>
<td>Angus</td>
<td>12</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td>16</td>
</tr>
<tr>
<td>Argyll and Bute</td>
<td>15</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>18</td>
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<tr>
<td>Dumfries and Galloway</td>
<td>4</td>
<td>2</td>
<td>1</td>
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<td>22</td>
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<tr>
<td>East Ayrshire</td>
<td>24</td>
<td>10</td>
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<tr>
<td>Highland</td>
<td>7</td>
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<tr>
<td>Moray</td>
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<td>1</td>
<td>13</td>
<td>9</td>
<td>25</td>
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<tr>
<td>Orkney Islands</td>
<td>13</td>
<td>7</td>
<td>9</td>
<td>7</td>
<td>30</td>
</tr>
<tr>
<td>Perth and Kinross</td>
<td>19</td>
<td>9</td>
<td>11</td>
<td>8</td>
<td>27</td>
</tr>
<tr>
<td>Scottish Borders</td>
<td>10</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>23</td>
</tr>
<tr>
<td>Shetland Islands</td>
<td>25</td>
<td>11</td>
<td>15</td>
<td>11</td>
<td>32</td>
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<tr>
<td>South Ayrshire</td>
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<td>14</td>
<td>6</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>Stirling</td>
<td>27</td>
<td>12</td>
<td>18</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>Comhairle nan Eilean Siar</td>
<td>11</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>18</td>
</tr>
</tbody>
</table>

Ranking $^1$: This is the ranking of the Local Authority with respect to all 32 Scottish Local Authorities. Overall Ranking $^1$ is the ranking of the Local Authority with respect to all 32 Scottish Local Authorities according to all four indicators combined. Ranking $^2$: This is the ranking of the Local Authority with respect to the 14 Randall Rural Local Authorities. The lowest number (1) is the most vulnerable out of the 32 Local Authorities, while the highest number (32) is the least vulnerable.
Several key points can be noted from Table 3:

- There is considerable variability amongst local authorities across Scotland with no clear-cut pattern in terms of the vulnerability of urban and rural local authorities. Five of the top ten most vulnerable authorities are urban, including the top two most vulnerable - Dundee City (1) and West Dunbartonshire (2), both with a particularly high proportion of their workforce in the public sector – and five are rural.
- The Western Isles is the rural local authority that is ranked highest in terms of its vulnerability (3 out of all 32 local authorities). This authority is facing particular challenges in terms of the importance of the public sector as an employer and the proportion of its population of working age. The Western Isles’ population continues to be highly imbalanced in terms of age and gender, and this challenge is likely to persist, if not worsen, in future due to the economic climate. Four other rural local authorities also take up positions in the top ten most vulnerable, including Argyll and Bute (5), Dumfries and Galloway and Moray (jointly ranked 6) and the Orkney Islands (9). As discussed in Section 2.4.3, the Western Isles, Argyll and Bute and Moray are also facing particularly high budget cuts, well over the 2.6% average across Scottish local authorities.
- The analysis shows that some rural local authorities have high overall rankings, suggesting limited vulnerability to further economic downturn associated with public sector cuts. These include Aberdeenshire (32), Shetland (30) and Perth and Kinross (27). In the former two cases, both authority areas have limited proportions of their population working in the public sector (and a strong private sector in the form of the oil industry) and claiming JSA, and relatively high levels of average weekly pay. Table 4 shows a list of the Scottish rural local authorities according to their overall vulnerability ranking.

<table>
<thead>
<tr>
<th>Local authority</th>
<th>Overall ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Isles</td>
<td>3</td>
</tr>
<tr>
<td>Argyll and Bute</td>
<td>5</td>
</tr>
<tr>
<td>Dumfries and Galloway</td>
<td>6</td>
</tr>
<tr>
<td>Moray</td>
<td>6</td>
</tr>
<tr>
<td>Orkney Islands</td>
<td>9</td>
</tr>
<tr>
<td>Highland</td>
<td>11</td>
</tr>
<tr>
<td>Scottish Borders</td>
<td>12</td>
</tr>
<tr>
<td>East Ayrshire</td>
<td>14</td>
</tr>
<tr>
<td>Angus</td>
<td>16</td>
</tr>
<tr>
<td>South Ayrshire</td>
<td>19</td>
</tr>
<tr>
<td>Stirling</td>
<td>21</td>
</tr>
<tr>
<td>Perth and Kinross</td>
<td>27</td>
</tr>
<tr>
<td>Shetland Islands</td>
<td>30</td>
</tr>
<tr>
<td>Aberdeenshire</td>
<td>32</td>
</tr>
</tbody>
</table>

- Also, within local authority areas there are considerable variations in performance, with an area showing some vulnerability in relation to one or two of the indicators, but better performance relating to the other indicators. One example is Perth and Kinross which ranks well in terms of low numbers of JSA claimants and a relatively low proportion of its workforce in the public sector, but more poorly in terms of weekly pay and the proportion of the population of working age. In contrast, East Ayrshire performs well in terms of weekly pay and
the proportion of the workforce of working age, but more poorly in terms of the proportion of the local population claiming JSA and working in the public sector. In Orkney, there are relatively low numbers of people claiming JSA but a more negative picture in terms of the proportion of the workforce in the public sector and the low proportion of people of working age in the Islands.

- Observing the rankings for JSA claimants shows that, on this indicator, only four rural local authority areas rank in the top 16 most vulnerable (East Ayrshire [the only rural local authority area in the top 10 most vulnerable on this indicator], South Ayrshire, Stirling and Angus). This highlights the issue discussed in Section 3.5 where it was argued that rural areas tend to see lower levels of claimants for unemployment benefits as those seeking work will leave the area to find unemployment or will not claim benefits due to poor knowledge about their entitlements or due to the fear of being stigmatised.

Table 5: Ranked list of the 32 Scottish local authorities according to their overall vulnerability

<table>
<thead>
<tr>
<th>Local authority</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dundee City</td>
<td>1</td>
</tr>
<tr>
<td>West Dunbartonshire</td>
<td>2</td>
</tr>
<tr>
<td>Western Isles</td>
<td>3</td>
</tr>
<tr>
<td>Inverclyde</td>
<td>4</td>
</tr>
<tr>
<td>Argyll and Bute</td>
<td>5</td>
</tr>
<tr>
<td>Dumfries and Galloway</td>
<td>6</td>
</tr>
<tr>
<td>Moray</td>
<td>6</td>
</tr>
<tr>
<td>Glasgow City</td>
<td>8</td>
</tr>
<tr>
<td>Orkney Islands</td>
<td>9</td>
</tr>
<tr>
<td>Clackmannanshire</td>
<td>10</td>
</tr>
<tr>
<td>Highland</td>
<td>11</td>
</tr>
<tr>
<td>Scottish Borders</td>
<td>12</td>
</tr>
<tr>
<td>North Lanarkshire</td>
<td>13</td>
</tr>
<tr>
<td>East Ayrshire</td>
<td>14</td>
</tr>
<tr>
<td>Fife</td>
<td>14</td>
</tr>
<tr>
<td>Angus</td>
<td>16</td>
</tr>
<tr>
<td>North Ayrshire</td>
<td>16</td>
</tr>
<tr>
<td>Midlothian</td>
<td>18</td>
</tr>
<tr>
<td>South Ayrshire</td>
<td>19</td>
</tr>
<tr>
<td>Falkirk</td>
<td>20</td>
</tr>
<tr>
<td>Stirling</td>
<td>21</td>
</tr>
<tr>
<td>East Renfrewshire</td>
<td>22</td>
</tr>
<tr>
<td>East Lothian</td>
<td>23</td>
</tr>
<tr>
<td>West Lothian</td>
<td>24</td>
</tr>
<tr>
<td>Renfrewshire</td>
<td>25</td>
</tr>
<tr>
<td>South Lanarkshire</td>
<td>26</td>
</tr>
<tr>
<td>Perth and Kinross</td>
<td>27</td>
</tr>
<tr>
<td>Edinburgh City</td>
<td>28</td>
</tr>
<tr>
<td>East Dunbartonshire</td>
<td>29</td>
</tr>
<tr>
<td>Shetland Islands</td>
<td>30</td>
</tr>
<tr>
<td>Aberdeen City</td>
<td>31</td>
</tr>
<tr>
<td>Aberdeenshire</td>
<td>32</td>
</tr>
</tbody>
</table>

- In England, a correlation was observed between low levels of JSA claimants and low wage levels. In Scotland, this pattern is less clear-cut but it is evident in some rural local authority areas, particularly Dumfries and Galloway and Moray but also
to a certain extent in the Orkney Islands, Highland and the Scottish Borders. This again suggests the operation of an informal economy whereby those on low wages may be undertaking ‘portfolio working’ by taking on multiple jobs or that they are more satisfied ‘to get by on less’. While this suggests some degree of economic resilience in rural areas, it is questionable as to how long this can be maintained if there are large-scale and long-term cuts in services and jobs and if household expenditure levels continue to be forced upwards.

Overall therefore, while there is an even split between rural and urban in terms of the top ten most vulnerable local authorities, the two most vulnerable local authorities are urban. Rural areas such as the Western Isles, Argyll and Bute and Dumfries and Galloway are vulnerable, while Aberdeenshire and the Shetland Islands show a more positive picture with respect to vulnerability (Table 5). The analysis confirms that there are considerable variations between rural local authority areas in Scotland and that different policy and strategy approaches may be required in different locations to ensure that rural areas can survive the current difficult economic times.

The Index, while based on four important indicators, is a relatively simple assessment of the vulnerability of local authorities. As this report has highlighted, there are other issues which also need to be taken into account when considering the vulnerability of rural areas, including the small size of the private sector (and its limited ability to ‘soak up’ jobs lost in the public sector), the higher price of household commodities in rural areas (including food and fuel) and the high cost of delivering services. While the Index alone suggests that rural and urban areas are both vulnerable to further economic downturn, when these additional factors are taken into account, the outlook for rural areas may be worse.

Finally, it should also be noted that many of Scotland’s local authorities (and particularly the rural local authorities) cover large geographical areas and therefore incorporate substantial demographic, economic, social and physical variations. It is important that more detailed analysis is carried out to explore local level differences, for example, comparing small, county towns which serve as local administrative centres and thus have high numbers of public sector workers.

33 For example, analysis in England has revealed the vulnerability of ‘county towns’ such as Morpeth in Northumberland, where 60% of the workforce is employed by the public sector (either directly in one of three local hospitals, Northumberland County Council, the police HQ or the Department for Work and Pensions, or indirectly through private sector businesses dependent on public sector contracts), the highest proportion of anywhere in the country (The Guardian 2nd February 2010). In Castle Morpeth, the borough in which the town is situated, 52.6% of the total employment base is in state-sponsored jobs. Further analysis is being undertaken by Rose Regeneration, the Rural Services Network and the Rural Policy Centre to explore the vulnerability of small towns across Scotland.
Chapter 4: How can rural areas respond to the challenges of public sector funding cuts?

4.1 Summary

- The public, private and third sectors all have a role to play in responding to the challenges of the public sector funding cuts, and indeed in supporting rural areas to exit from the downturn.
- Public sector organisations can respond by creating efficiencies wherever possible in their activities and by exploring innovative ways of jointly providing services, with other public, private or third sector organisations. More services may also be provided online resulting in cost savings, although careful planning is required to ensure rural areas are not excluded due to poor broadband infrastructure.
- It has already been noted that the private sector in rural areas is small, but evidence suggests that rural businesses display considerable resilience to poor economic conditions. Support may be required for rural businesses, including with respect to ensuring adequate infrastructure is available (such as premises and broadband provision), as well as financial help and advice.
- Evidence suggests that the third sector is particularly strong in rural areas, with higher rates of formal volunteering and higher numbers of charities per head of population (Woolvin 2011). Third sector organisations already play an important role in delivering and co-delivering services in rural areas, and this role looks set to expand. However, third sector organisations are facing their own challenges, including funding pressures, the ageing demographic of volunteers and the limited capacity of the sector.

4.2 Introduction

Chapter 3 of this report set out the impacts of the public sector funding cuts for rural areas in Scotland, while this chapter explores some of the responses to these cuts. The chapter is divided into three sections, firstly exploring ways in which the public sector could respond, and in some cases is already responding, to funding cuts, before the second and third sections explore potential private and third sector responses, respectively.

4.3 Public sector responses

As well as detailing the spending cuts required, the Scottish Budget itself sets out a number of ways in which national and local government would seek to make the cuts, including through job losses, efficiency targets and pay freezes. The confirmation by some local authorities of their 2011-12 budgets have also outlined ways in which spending on services will be cut-back (see Section 3.6).

However, there are other possible responses, which do not involve direct cuts to jobs or to services (and the follow-on negative impacts on local income generation and on welfare services). One approach is by careful, planned management of (fewer) resources and by creating efficiencies in spending wherever possible. Another approach is to explore innovative and integrated ways of providing services, perhaps in partnership with other local authorities and public bodies, or with private and third sector groups. Recent reports suggest that Edinburgh, West, East and Mid Lothian, Borders and Fife Councils may be exploring the
potential for pooling a raft of services. The CRC (2010a) argues that rural local authorities do need to work in collaboration, including with nearby urban authorities, to maximise the opportunities that exist in the interactions and interdependencies between urban and rural places. Many local authorities are also exploring the provision of services online, which may deliver large efficiency savings (CRC 2010a). While this approach may benefit those living in remote rural areas where these services are not available on the ground, careful planning is required to ensure that such approaches do not heighten exclusion and isolation amongst the ‘rural digitally excluded’, those who are not able to access services online.

Many local authorities are already working with third and community sector organisations to run services, but this is an option that more may explore in future as they face the need to withdraw from direct provision of some services. The potential role of the third sector is explored in more detail in Section 4.5.

4.4 Private sector responses

The UK Coalition Government argues that a large public sector inhibits or crowds-out private sector growth and that the private sector will be able to expand to make up for public sector cuts. However, Chapter 3 has already discussed the relatively limited size of the private sector in rural areas, and thus the considerable challenge it faces in ‘taking up the slack’ in terms of the jobs lost in the public sector. Tertiary private sector activity makes up a larger proportion of employment in the rest of Scotland than in remote and accessible Scotland (59%, 47% and 46% respectively) (The Scottish Government 2010c). Moreover, it may be that many rural businesses are already over-stretched from having to survive through the recession and they may be in poor shape to survive another period of reduced demand (South West Regional Observatory 2010). At the same time, however, there is also evidence to suggest that rural businesses (including agricultural businesses) may be relatively resilient during difficult times, particularly as a result of the inter-linking of the business and its finance with the household, giving the business a degree of flexibility in difficult times (Atterton and Affleck 2010; Phillipson et al. 2004; Oughton et al. 2003; Raley and Moxey 2000).

Work undertaken by the CRC in England has argued that opportunities to help rural economies prosper must be explored as the public sector contracts, and that the Government must consider investing more heavily in rural areas, which still tend to punch below their weight in terms of their economic potential (CRC 2010a; see also CRC 2008). Data from the Scottish Government (2010c) suggests that rural areas have a slightly lower rate of business openings than the rest of Scotland, particularly in remote rural areas, but also a lower closure rate. In terms of the total businesses per 10,000 adults, remote rural areas have the highest rate (499), compared to 450 in accessible rural areas and 317 in the rest of Scotland, suggesting considerable economic potential in rural Scotland. In remote rural areas, the factors perceived by business owners as being the most important obstacles to the success of their business are getting orders, finance and tax and regulations. These are factors that could be focused on by the Scottish Government and business support agencies, such as Business Gateway, in order to remove some of the barriers facing firms wishing to grow. The data also revealed the higher proportions of firms wishing to stay the same size or reduce in size over the next five years in rural areas, again suggesting that there may be a role for business support agencies to better understand some of the reasons why rural firms are less likely to wish to grow, and the implications of this (The Scottish Government 2010c).

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Pert and Kinross Council (Perth and Kinross Council Community Planning Partnership 2010) has recognised the importance of the private and social enterprise sectors in offering the majority of employment opportunities in the next few years. In support of this, the Council is supporting and working with local employers on a sectoral basis to generate these opportunities. Stirling Council has also placed emphasis on working in partnership with the private sector to maximise income, employment and training opportunities (Stirling Community Planning Partnership 2010). Similar approaches to boosting the private sector may be required in the Western Isles, Argyll and Bute and the other rural local authorities highlighted as being vulnerable to further downturn associated with the cuts (see Section 3.9.2). Approaches might include ensuring a good supply of high quality hot-desking facilities and small business units in small towns, or supporting those individuals wishing to set up home businesses. All these facilities require the necessary infrastructure to be in place, including transport and communications – particularly broadband – infrastructure. The announcement in the Scottish Budget of £11 million spending on broadband interventions to support the Digital Ambition for Scotland is welcome in this regard, although the deferring of the Universal Service Obligation on broadband provision until 2015 could disproportionately affect rural businesses and households, particularly if more goods and services become available online. More broadly, the announcement in the Scottish Budget that the Small Business Bonus Scheme will be maintained is welcome, while cuts to the SRDP Rural Enterprise schemes are more worrying for the rural private sector.

4.5 Voluntary and community sector responses

Much has been written about the potential role for the community and voluntary sector at this time of public sector funding cuts. Many local authorities are already working with ‘third sector’ organisations in terms of service delivery and, as spending by the public sector becomes increasingly constrained, new opportunities will be available for such joint working. However, voluntary and third sector organisations themselves are facing budget pressures which may mean that they are unable to deliver such a wide range of services as they have in the past. There may also be a decline in the quality, frequency and coverage of services delivered by such voluntary agencies for people in rural areas, especially as the costs of provision are high in such locations. This is of particular concern when considering the elderly, the infirm, the housebound and those on low incomes, as well as informal carers, where flexible services delivered by the voluntary sector (such as community transport, home visits and lunch clubs) are likely to be affected. It has been suggested that the third sector is particularly effective at reaching these ‘hard-to-reach’ members of the population, both socially and geographically (Woolvin 2011). This in turn creates challenges for addressing isolation and inclusion, particularly in remoter parts of rural Scotland (McBain et al. 2010).

The concept of ‘Big Society’ was central to the Conservative’s election manifesto in 2010 and it has remained a key idea of the UK Coalition Government. ‘Big Society’ is about devolution of power to communities and local government, support for the community and voluntary sector in their role in delivering public services, and the role of community groups in running post offices, libraries, transport services and shaping housing projects. However, the concept has been criticised as an empty slogan and as simply being a smokescreen for cuts – effectively, a rolling back of the state to place more responsibility on communities with limited resources. Although ‘Big Society’ has not been embraced in Scotland, the localism agenda is strong north of the border. For example, a report by the Chartered Institute of Public Finance Accounting and Solace (2009) advocated three strategic options for addressing the future challenges of public sector funding cuts, including a review and redefinition of the relationship between the individual and the state such that people do more for themselves and each other and look less to the state as the provider of first resort.
In Scotland, the Budget document (The Scottish Government 2010b) contained a commitment to a more central involvement by the third sector in public service re-design. Supporting this are three key interventions:

- £5 million investment in early years prevention approaches by the third sector;
- £70 million Change Fund to invest in community-based health and social care services for older people;
- An increase of £1 million for the Climate Challenge Fund which has brought much-needed investment in community-led projects to tackle climate change.

However, what is critical is that the capacity of the third sector to play this more central role is maintained and supported. Already there have been suggestions in the media that the public sector funding cuts are serving to undermine the capacity of the sector. For example, the Head of Community Service Volunteers has said that the spending cuts are destroying volunteering and undermining the ‘Big Society’ vision, as they make it harder for individuals to act in their local communities. Although, at the same time, the UK Government has argued that it is investing £470 million over the next four years in charities and voluntary groups to give them independence from state money (BBC News 7th February 2011). Also in February 2011, the BBC ran an article focusing on Liverpool’s withdrawal from the UK Government’s Big Society plans. The City was one of four pilot areas for the scheme, aimed at giving community groups and volunteers more control over their local services. However, Liverpool argued that the government cutbacks had threatened the future of many local volunteer groups, thereby undermining the philosophy about giving people more control.

The third sector faces a number of other challenges in taking a greater role in service delivery. These include the challenges of budget cuts themselves. Many public sector ‘delivery contracts’ ran out in March 2011, and there is concern that spending in the voluntary sector is vulnerable to cuts as local authorities look to make substantial savings, not only now but well into 2017/18. Other challenges include the short term nature of much of the funding, the ageing demographic of many volunteers and the patchy coverage and limited capacity of the sector (Skerratt et al. 2010). It is important that there is openness to innovative ideas and ways of working in both the public and third sectors and a willingness to make organisational and cultural changes to facilitate positive partnership working.

It is critical that communities more broadly (i.e. beyond defined third sector groups) are supported to develop their capacity to help themselves, through community development and other support (e.g. through SRDP LEADER funding, or through schemes such as the Big Lottery’s Village SOS programme). In many rural areas, informal community networks are vitally important in providing support and assistance to those in need, including older people. These networks depend on good levels of trust and social capital in the locality, and often serve the most vulnerable, including those in the most remote locations where economies of scale simply mean that the private and public sectors will not provide a service. They may become increasingly important as formal service provision contracts.

Evidence does suggest that the ‘Big Society’ may already be well-established in rural areas, with their stronger tradition of self-reliance, higher rates of civic engagement (e.g. with more people participating socially, attending events or helping out), a strong sense of the community, many examples of communities having the capacity to own and manage a variety of local assets, and higher number of voluntary organisations per head (CRC 2010b; CRC and ResPublica 2011; Shucksmith 2010; Woolvin 2011). The latter suggests that rural areas may be better placed to weather the impacts of the public sector cuts, but there is also the possibility that higher levels of reported volunteering are a function of bridging the gap.

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35 The Prime Minister made it clear to local government that it has a responsibility not to make easy spending cuts to the voluntary sector (where the value for money of joint working is high) but instead should look at their core costs and how they can do more for less money (CRC and ResPublica 2011).

36 For more information see: [http://www.biglotteryfund.org.uk/prog_village_sos](http://www.biglotteryfund.org.uk/prog_village_sos).
between a pre-existing lack of service in rural areas and necessity. Given the already high levels of participation, there may be a lower capacity for rural populations to become involved in a sustainable way (Woolvin 2011).

Given the strength of informal networks and more formal volunteering in rural communities, at this time of public funding cuts, rural areas could serve as a useful ‘test bed’ for further development of innovative partnership working between the public, private and third sectors. Rural areas do have considerable asset bases for achieving the goals of localism and many rural communities have a strong track record in terms of local level empowerment and acquisition of resources and assets. There is also anecdotal evidence to support the premise that where decisions are taken locally, it is more likely that an appropriate decision will be taken for that locality. Similarly, where those who use a particular service are involved in taking decisions about the design and delivery of that service, anecdotal evidence seems to suggest that there is a greater chance that effective outcomes will be achieved. However, as acknowledged by the CRC and ResPublica (2011), it is critical that connections and networks between individuals and communities are in place to form the basis of such services, including through the use of both transport and high speed broadband.
Chapter 5: Conclusion

This report has outlined the UK public sector budget cuts and discussed the potential implications of the cuts for rural areas in Scotland. This final chapter summarises some of the key messages from the report and outlines some recommendations in terms of supporting rural businesses and communities, to weather the difficult economic conditions they are facing.

The report started by referring back to the 2010 June Budget and October CSR, before focusing in more detail on the Scottish Government’s 2011-12 Budget which was passed in the Scottish Parliament in February 2011. The Scottish Government’s budget was reduced by 1.3 billion (in cash terms) from 2010-11 to 2011-12, the largest reduction ever in Scotland’s budget from Westminster. As a result the Scottish Government has set out its Spending Plans, which include a number of key commitments, including a pay freeze for public sector workers and protecting spending on running health services. All Scottish Government portfolios have seen a real terms decline in their budget, including a cut of £55 million in the Environment and Rural Affairs department, which will be achieved through reductions in the budgets for key public sector agencies (including SEPA and SNH), reduced spending on the SRDP and a reduction in the budget for Research Programmes. Local councils in Scotland have seen an average cut of 2.6% in their budgets, in response to them agreeing to meet a specified set of commitments, although some local authorities have seen larger cuts.

Attention has focused so far on the impact of the cuts on different social groups in the population – with most commentators arguing that the cuts will hit the poorest and most vulnerable families hardest - this report has explored the likely impact of the cuts on rural areas in Scotland. Many rural areas, including remote areas such as the Western Isles, rely heavily on the public sector as a source of employment and thus job cuts will hit some areas hard. This will particularly be the case in areas where the private sector is small and therefore will be unlikely to be able to ‘take up the slack’ in terms of new job creation. The cost of delivering services in rural areas is higher than urban areas, and concerns have been expressed that rural services – serving a low, scattered population – may be first to be cut. Moreover, as noted above, some rural councils are facing much larger cuts than 2.6% in their budget (for example, Aberdeenshire is facing a 7.7% cut and Argyll and Bute a cut of 6.3%) meaning that services may be under even greater pressure. As budgets such as health have been protected, other areas of spending, including environmental, rural and cultural services may face larger budget pressures as they are not seen as a priority.

This report has thematically discussed a number of issues where the cuts may affect rural areas, including: job cuts and pay freezes which will affect local spending in rural economies; cuts to the welfare budget which will hit many rural households (particularly those on low incomes) hard at a time when spending on basic commodities has increased; lower targets for affordable house building which will further reduce the supply at a time when demand is likely to increase and when rural market housing affordability remains poor; pressure on frontline services, with some specific cuts already announced by local authorities; and cuts in defence spending creating local pockets of unemployment around defence establishments.

The report analysed the results of a Vulnerability Index devised by Rose Regeneration and the RSN. The Index provides a simple assessment of the vulnerability of local economies to a new economic downturn driven by severe public spending cuts. The Index has highlighted a variable pattern in terms of the vulnerability of rural and urban authorities, with the top two most vulnerable local authorities being urban (Dundee and West Dunbartonshire). Five rural local authorities - the Western Isles, Argyll and Bute, Dumfries and Galloway, Moray and the Orkney Islands - are in the top ten most vulnerable local authorities in Scotland (alongside five urban authorities). At the same time, Perth and Kinross, the Shetland Islands and Aberdeenshire are amongst the least vulnerable local authorities. It should be noted,
however, that the Index provides a relatively simple way of assessing vulnerability using four indicators, albeit they reflect critically important features of local economies. Other factors must also be taken into account when giving an overall assessment of the vulnerability of rural areas, including the small private sector, the higher cost of service provision and the higher price of basic commodities. All of these factors, taken together, may mean that rural areas are likely to be hit harder by public sector cuts.

The Index also highlights the variability across rural areas in terms of the challenges they are facing, and the ways in which they can be supported in emerging from them. For some rural local authorities, the vulnerability particularly relates to the proportion of workforce in the public sector (Argyll and Bute and the Western Isles) and the proportion of the population of working age (Dumfries and Galloway and the Western Isles). This emphasises the importance of shaping local policies to suit local circumstances as far as possible, as ‘one size doesn’t fit all’. It should also be remembered that Argyll and Bute, Moray and the Western Isles are the authorities facing the largest spending cuts in Scotland, well above the average of 2.6%.

In some ways, rural areas have some characteristics which mean that they are well-placed to weather the storm in terms of public sector funding cuts. Rural areas have higher levels of volunteering and more voluntary organisations per head than urban areas, suggesting that voluntary groups could play a greater role in service delivering in areas where the public sector is forced to withdraw. However, the demands that this places on voluntary and community organisations should not be under-estimated and these organisations need to be supported in taking on these new roles. There are real opportunities for enterprising third sector organisations to work with forward-thinking public sector organisations to design and deliver services more efficiently. However, organisational and cultural barriers on both sides need to be overcome, and the third sector needs to be fully involved in any discussions about future service delivery. This process also requires innovative thinking in the public sector, in terms of the co-delivery of services with different groups in the private and third sectors, or the joint delivery of services across local authority boundaries. Some local authorities are exploring these alternatives, demonstrating the potential for some bottom-up change, but it may be that for more radical structural change and reform of public services, legislative change is required (Bell 2010). Depending on its conclusions, this may result from the Christie Commission on the future delivering of public services (due to report in June 2011), although this will depend to some extent on the outcome of the Scottish election in May.

Evidence also suggests that rural businesses, despite their small size, are more resilient to challenging economic conditions than urban businesses, as they are able to draw on the wider household and its finance to get through difficult times. While the private sector in rural areas may struggle to take up the slack in terms of the jobs lost in the public sector, existing rural businesses may be relatively resilient to the challenging circumstances that this presents. Nevertheless, it is important that adequate business support is in place to support existing businesses and to support those who may wish to set up new businesses. Good infrastructure is also important, not least in terms of high quality, next generation broadband provision.

The recent economic downturn and associated public sector funding cuts also potentially offer an opportunity for a more strategic re-think about alternative visions of how economic and social life might be best organised and managed, including in relation to new models of home-working, travelling, energy generation and use, and social enterprise. There is an opportunity to think through a specifically rural perspective on alternative socio-economic futures, but a need to ensure that those interested in rural futures and those living in rural areas are active participants in these debates (Lowe and Ward 2009; Ward 2010). Sharing best practice approaches and replicating successful models in these debates will be important.
Finally, it is critically important that we improve our understanding of the challenges, costs and different models of rural service provision, and also the needs of rural areas. This includes developing a better evidence base on these issues. Adequate methods are required to allocate funding to take the highest unit cost of providing services in rural areas into account, particularly at a time when budgets are being cut. Moreover, we need to undertake further work to ensure that the long-standing and inter-related challenges facing rural areas (such as the hidden and dispersed nature of rural poverty, the low take-up of benefits, the limited supply of affordable housing and poor affordability of market housing, the relative lack of basic services such as childcare and transport, and the ageing population) do not worsen as public sector budgets are cut. We need to move beyond anecdotal evidence to a more systematised collation of evidence of where third sector organisations, and partnerships of organisations, have effectively delivered services. Further discussions are required focusing on the realities and concerns of delivery through an increasing range of bodies commissioned by and through the public sector, addressing themes such as governance and inclusion.

This report has highlighted the key areas in which the public sector funding cuts are impacting, and will impact, on rural Scotland, and the Vulnerability Index has provided a simple tool for assessing the vulnerability of local authorities to further economic downturn associated with severe public sector cuts. However, local authorities cover large areas, particularly rural authorities, and the Rural Policy Centre will be undertaking further work, in collaboration with Rose Regeneration and the RSN, to explore the vulnerability of small areas, particularly small, county towns to the public sector cuts. This report will also form the basis of further work over the coming months to explore the continuing impacts during 2011-12 and beyond.
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### Appendix

Table A1: Ranking of the 32 Scottish Local Authorities

<table>
<thead>
<tr>
<th>Local Authority</th>
<th>% employed in the public sector</th>
<th>% receiving JSA</th>
<th>Average weekly earnings</th>
<th>% of the population of working age</th>
<th>Overall Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen City</td>
<td>29</td>
<td>29</td>
<td>28</td>
<td>30</td>
<td>31</td>
</tr>
<tr>
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<td>31</td>
<td>29</td>
<td>19</td>
<td>32</td>
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<td>23</td>
<td>16</td>
<td>12</td>
<td>3</td>
<td>16</td>
</tr>
<tr>
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<td>5</td>
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<td>26</td>
<td>32</td>
<td>28</td>
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<td>2</td>
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<td>8</td>
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</table>

Note: 1 is the most vulnerable, while 32 is the least vulnerable.