

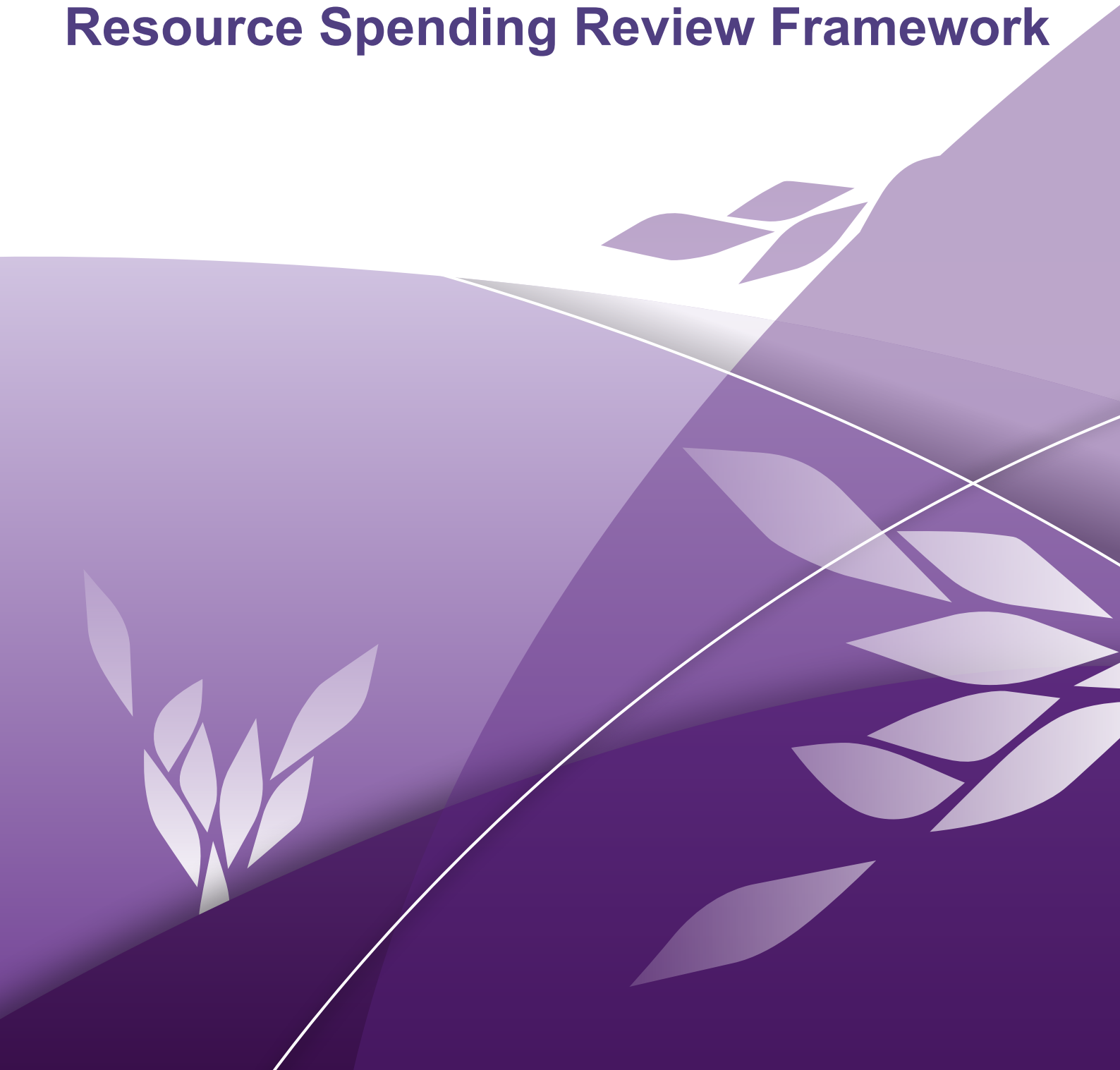


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Pàrlamaid na h-Alba

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## Finance and Public Administration Committee

# Investing in Scotland's Future: Resource Spending Review Framework



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# Contents

Introduction	1
Priorities for the Resource Spending Review	2
Economic and political context	5
Cross-cutting issues and preventative approaches	7
Links with the National Performance Framework outcomes	10
Bibliography	12

# Finance and Public Administration Committee

To consider and report on the following (and any additional matter added under Rule 6.1.5A)—

(a) any report or other document containing proposals for, or budgets of, public revenue or expenditure or proposals for the making of a Scottish rate resolution, taking into account any report or recommendations concerning such documents made by any other committee with power to consider such documents or any part of them;

(b) any report made by a committee setting out proposals concerning public revenue or expenditure;

(c) Budget Bills; and

(d) any other matter relating to or affecting the revenue or expenditure of the Scottish Administration or other monies payable into or expenditure payable out of the Scottish Consolidated Fund.

(e) matters relating to public service reform and the National Performance Framework within the responsibilities of the Deputy First Minister and public administration.

2. The Committee may also consider and, where it sees fit, report to the Parliament on the timetable for the Stages of Budget Bills and on the handling of financial business.

3. In these Rules, “public expenditure” means expenditure of the Scottish Administration, other expenditure payable out of the Scottish Consolidated Fund and any other expenditure met out of taxes, charges and other public revenue.

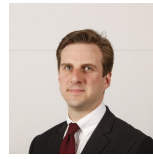


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# Introduction

1. On 9 December 2020, the Scottish Government published a consultative document, 'Investing in Scotland's Future: resource spending review framework',<sup>1</sup> alongside the Scottish Budget 2022-23<sup>2</sup> and fourth Medium-Term Financial Strategy,<sup>3</sup> seeking views on the framework by 27 March 2022. Informed by this consultation, the Scottish Government's first resource spending review since 2011 is expected to be published in May 2022 and will cover the Scottish Government's priorities for spending for the remainder of the parliamentary session.
2. Resource spending is money used to fund administration and the day-to-day delivery of services and programmes, such as school meals, concessionary bus passes and most public sector staff salaries, while capital spending is spent on investment, infrastructure, and creating growth. According to the Framework document, this year's Resource Spending Review and the Investing for jobs: Capital Spending Review 2021-22 to 2025-26,<sup>4</sup> published in February 2021, will together give a comprehensive picture of Scotland's multi-year public spending plans.
3. The Budget Process Review Group (BPRG) explains in its 2017 report that "spending reviews are intended to provide a means via which overall expenditure can be prioritised"<sup>5</sup>, adding that they are not expected to provide a mechanism for allocating new spending proposals or monies, but are "a means of prioritising and identifying potential savings options associated with existing expenditure". It goes on to say that "the opportunity for parliamentary influence on the budget is greater in spending review years when priorities are more likely to be reassessed [and] it is therefore essential that the Parliament has sufficient opportunity to robustly scrutinise Scottish Government spending reviews".<sup>5</sup>
4. The Committee therefore agreed to carry out its own short, focussed inquiry running parallel to the Scottish Government's call for views, with the aim of complementing rather than duplicating its work. We have focused our inquiry on longer-term trends and cross-cutting approaches as well as the overarching priorities and context set out in the Framework, rather than looking at proposed spending in portfolio areas, which are for subject committees to consider.
5. We thank all those who took the time to respond to our inquiry, as well as our witnesses, for their valuable evidence, which has helped to inform our recommendations. A SPICe summary of the 15 responses we received to our call for views is available on the Committee's web pages.
6. The Spending Review comes at a time of significant pressure on the public purse, with the risk of high levels of inflation and a cost of living crisis pushing more people into poverty. It therefore presents a real opportunity to take a fresh look at funding priorities for the lifetime of this Parliament and to refocus spending on those areas that can make most difference to those most in need.

# Priorities for the Resource Spending Review

7. The Scottish Government's fourth Medium-Term Financial Strategy<sup>3</sup> published alongside the Framework states that "with limited resources, increased investment in the Scottish Government's priorities will require efficiencies and reductions in spending elsewhere: we need to review long-standing decisions and encourage reform to ensure that our available funding is delivering effectively for the people of Scotland". It adds that "the Resource Spending Review will, through evidence and consultation, develop four-year spending plans with the aim of managing the financial risks we face and maximising the impact of our available funding".
8. The Framework sets out the Scottish Government's three core priorities for the Resource Spending Review which are to:
  1. support progress towards meeting child poverty targets,
  2. address climate change; and - underpinning these -
  3. to secure a stronger, fairer, greener economy.
9. While many witnesses said that they were largely content with these three core priorities, some commented on their breadth and wide-ranging nature. Paul Bradley from the Scottish Council for Voluntary Organisations for example told the Committee that the priorities are "good and worthy, but you could probably fit the whole voluntary sector and what it does into the third priority of 'a stronger, fairer, greener economy'"<sup>6</sup>.
10. While it was widely agreed that addressing climate change targets should be one of the core priorities in the Framework, some witnesses commented on the lack of detail regarding the actions to be taken and the funds required to tackle this significant challenge. The Scottish Property Federation (SPF) told the Committee that "the cost of this challenge is now beginning to materialise for the public sector, businesses, and individuals alike, yet there is no substantive explanation of how the public sector will be supported to play its part to meet these challenges, other than stating that they will be met"<sup>7</sup>. The Committee looks forward to looking at these issues in more detail as part of its work on financing the net zero targets.
11. Professor David Heald from the University of Glasgow said that "while few would argue with these aspirational objectives, they do not constitute priorities for the specific tasks of the Resource Spending Review 2022"<sup>8</sup>. He went on to argue that the priorities should be focussed on recovery from the direct and indirect effects of the pandemic, enhancing efficiency of public services, improving relationships with local authorities, and ensuring that financial plans "are fiscally sustainable in light of the Covid-19 legacy and demographic challenges"<sup>8</sup>. While others, such as Universities Scotland and Colleges Scotland, expressed concern that education was not included as one of the core priorities and the ALLIANCE said that "further steps could be taken to explicitly embed human rights and equalities as an overarching policy".<sup>9</sup>

12. While some commented that it would be for the Spending Review itself to explain and evidence the priorities chosen, others were concerned at the limited data and detail on the drivers behind the priorities in the Framework. The Scottish Parliament's Public Audit Committee, drawing on its scrutiny of previous audits of government policy, stated that it is "essential that robust data is in place in order to measure the progress that is being made to meet these outcomes" <sup>10</sup>.
13. Questions were also raised as to how the priorities interact with, and impact on, each other. Emma Congreve from the Fraser of Allander for example noted that there are times when child poverty and climate change might "rub against each other" and posed the question: "what happens when there is that kind of divergence in the outcomes of the priorities?" <sup>8</sup>. This view was echoed by the Child Poverty Action Group, which called for a joined-up approach, arguing that, "as government seeks to invest public funds to tackle the climate crisis and build a fairer, greener economy, it must ensure it is doing so in a way that helps to end child poverty" <sup>9</sup>.
14. Some doubts were expressed regarding the timescale for the review. Professor Heald explained that HM Treasury spending reviews often take between six months and a year, adding that "it is quite difficult to do analytical work on a very short timescale, so I hope that, behind the scenes, the Scottish Government is already doing a lot of the analytical work that will feed into the spending review" <sup>8</sup>.

**The Committee notes that the high-level priorities identified for the Resource Spending Review are broadly accepted by most of the witnesses we heard from. However, we ask that consideration is given to whether Covid recovery should feature more prominently in this Spending Review, given the lasting effects on our society and the economy, and the need for urgent action as identified in the Scottish Government's Covid Recovery Strategy.**

**The Committee has previously recommended that the Scottish Government sets out how it plans to manage the economy to meet its net zero commitments by 2045. While we accept that meeting climate change targets and securing a stronger, greener, fairer economy are prominent priorities in the Framework, there appears to be little detail to show that the plans we asked for are in place. We therefore seek reassurances that the Spending Review will provide this missing detail.**

**While we also accept that the purpose of the Framework document is to encourage broad views on spending priorities, we seek assurances that the Spending Review will include robust data, evidence and analysis to support the Scottish Government's spending decisions. This is vital in ensuring transparency and scrutiny, including of how the government has prioritised and identified potential savings options associated with existing expenditure, as anticipated by the Budget Process Review Group.**



**Consideration should be given in future spending review years to whether more time is needed to gather this important data and analysis, which informs effective decision-making and measurement of outcomes. We would also welcome further details as to how the Scottish Government intends to measure success against the core priorities identified for this Spending Review.**

**The Committee further believes that a spending review provides an opportunity for reflection on how effectively funds have been spent in previous years, and we therefore ask that the Spending Review is informed by these reflections.**

## Economic and political context

15. Under the Budget Process Session 6 Agreement between this Committee and the Scottish Government <sup>11</sup>, a Framework document for a spending review should set out the economic and political context as a backdrop to decision-making. Most respondents however considered that the Framework failed to reflect the full economic and political context and in particular did not place enough emphasis on the effects of the pandemic and longer-term pressures on the public sector of resourcing and increased demands. The Scottish Council for Voluntary Organisations (SCVO) also called for greater recognition of the financial strain facing the voluntary sector <sup>6</sup>.
16. Some considered that the Resource Spending Review should better reflect current inflationary and cost of living pressures, given financial investment would be needed to address or mitigate them. Demographic challenges were also highlighted, with the Scottish Property Federation suggesting that "the Framework does not set out ambitions to make investments that will address the political and economic challenges by enabling growth that increases people's taxable earnings" <sup>6</sup>.
17. The Committee's report on the Scottish Budget 2022-23 <sup>12</sup> notes our significant concerns regarding the Scottish Fiscal Commission's December 2021 forecasts of deteriorating income tax receipts, with a declining working age population and an increase in the number of older people with more complex care needs. The Framework document highlights that this leads to "an increased need for health and social care and for financial support through the social security system". In response, the SPF told the Committee that "all other ambitions [in the Framework document] will simply not be achieved unless you have growth in employment and people paying their tax revenues to support your wider ambitions", adding that productivity is a key issue <sup>7</sup>.
18. More specifically, we heard from Professor Heald about the risks of having a lack of taxpayers in Scotland "on very high incomes paying the Scottish top rate". He suggested that "we are [instead] very dependent on well-paid but not extravagantly well-paid people who are paying the higher rate". <sup>8</sup>
19. Emma Congreve noted in the Framework document that "the central projection is of a £3.5 billion gap between funding and spending by 2026-27", adding "to deal with that through cuts would be a substantial undertaking". <sup>8</sup> Professor Heald further highlighted that the level of financial uncertainty in recent times from issues such as inflation, which has seen a quick and significant rise, brings significant risk to the budget. He suggested, as a possible mitigation to such risks, that a substantial contingency reserve be created, and that money is 'kept back' in the Spending Review to cover these financial uncertainties. <sup>8</sup>

**The Committee believes that more detail on the full economic and political situation within which the Spending Review is being undertaken would have been helpful in providing more context and transparency to the actions being**

**considered. This is particularly important in times of significant pressure on public finances where difficult decisions and re-prioritisation of spending choices may be required to ensure that public finances in Scotland remain on a stable footing.**

**Our recent budget scrutiny highlighted demographic challenges and the trends behind the deteriorating income tax receipts forecast by the Scottish Fiscal Commission in December 2021. We plan to return to this issue of how to grow the tax base as part of our pre-budget scrutiny starting in May and will report to the Scottish Government on this matter later in the year. In the meantime, we believe that these important issues should be reflected within the context of this Spending Review.**

**While not, in principle, against the idea presented by Professor Heald of a larger reserve for contingencies, the Committee notes the Fiscal Framework's limits placed on moving money into and taking money out of the Scotland Reserve. Taking into consideration some of the other evidence received, the Committee feels that the Scotland reserve is too small, it is inflexible and should, at the very least, keep pace with inflation. The Committee looks forward to receiving more information from the Scottish Government about progress on the review of the Fiscal Framework and the associated upcoming independent report on the block grant adjustment arrangements, which provide an opportunity to look again at issues such as reserve limits.**

# Cross-cutting issues and preventative approaches

20. The Committee notes that cross-government collaboration, public service reform and prevention are "some of the ways of considering public spending" identified in the Framework document.
21. We heard from witnesses that more work is needed in these areas. On cross-government collaboration, Emma Congreve told the Committee that, "when it comes to the big decisions being made on the budget and on the spending review, things are still very compressed and a little bit too siloed".<sup>8</sup> She went on to highlight child poverty as an example of effective cross-government working, and education as an area still using the more traditional single department approach. She added that, while "the framework document talks about joining things up across Government, ... it does not say how it will do that."<sup>8</sup>
22. The Auditor General for Scotland spoke recently about the "ongoing relevance" of the Christie Commission's "inspiring agenda for change", highlighting that while some progress has been made, there is "a major implementation gap between policy ambitions and delivery on the ground"<sup>13</sup>. In this context, the Committee reported earlier this year that "the outlook for Scotland's economic performance and the downward pressure on the Scottish Budget, requires greater emphasis on prevention and reform".<sup>12</sup>
23. The Framework notes that the Scottish Government will "consider options to redirect funding towards demonstrable preventative approaches", adding that "preventative spend and person-centred delivery of support will reduce demand for other public services, and not least on the NHS." However, while noting these references to prevention in the Framework, COSLA stressed that a "genuine focus on preventative approaches is needed", and that the potential for prioritising such measures had been limited by core budget pressures. It stated that "with greater levels of funding being directed toward the NHS (fixing the problem) and reduced investment in preventative work (solving the problem), this simply exacerbates the problem and takes us further away from key priorities, especially around tackling child poverty".<sup>6</sup>
24. Others highlighted examples of good practice, such as the Chartered Institute for Housing, which noted that "housing is an excellent example of how investment in one area can have a positive impact on others"<sup>9</sup>, such as health and social care and community justice, while the Child Poverty Action Group argued that preventative spend should focus on childcare, housing, employment, education and free school meals.<sup>9</sup>
25. The Committee heard that the reasons behind, and benefits of, preventative spend should be better communicated and explained to the public to foster greater understanding and support for such measures. We were also told that preventative spend needs to be evaluated to ensure it is having the appropriate effect. Emma Congreve explained that there has been a lack of investment in monitoring and evaluating the preventative impact of policies over time, adding "if you want to

understand prevention, you have to figure out how to measure it".<sup>8</sup>

26. The Scottish Government indicated in the Framework that its "intention is to publish multi-year spending plans in May 2022 to provide our delivery partners and businesses, communities and individuals across Scotland with some certainty on which to base their own forward planning." The Committee has in its work repeatedly heard calls for multi-year funding to provide more certainty and efficiency in financial management. Again, amongst witnesses in this inquiry there was overwhelming support for the adoption of a multi-year approach to funding.
27. Professor Heald told the Committee that "it is pretty obvious that, if public bodies, the national health service, local authorities and private and voluntary sector providers to those bodies are not given sufficient warning of the funding that will be available, inefficiencies will be built into the system...people find it much easier to adjust to slightly lower spending totals if they know what the year 2 and year 3 numbers will be."<sup>8</sup> Eileen Rowland of COSLA, agreed that "multi-year settlements would allow councils to create their financial plans with a greater degree of certainty", adding "we could be more focused on what we are asking people to do if there was more certainty on the resources in years 2 and 3".<sup>7</sup> SCVO pointed to the savings that could be made by taking a multi-year approach in avoiding having to use up capacity to bid for "new pots of money to make up that jigsaw funding, rather than focusing on service delivery and supporting people".<sup>7</sup>

**In our recent report on the Scottish Budget 2022-23, the Committee welcomed the inclusion of 'changing demographics' as one of the three primary drivers of public spending within the Resource Spending Review Framework. We again note that this appears to provide scope for a renewed, more focused and sustained approach to policies aimed at reversing these demographic trends. We seek assurances that the Scottish Government will reflect this recommendation as part of the forthcoming Spending Review.**

**We also called for greater emphasis on prevention and public service reform. The Spending Review provides an opportunity for significant progress to be made in this area and we also ask that, where preventative measures are adopted, full explanation of their benefits is included to foster greater understanding amongst the public of these spending choices. We further seek clarification as to how policies are currently measured for preventative impact.**

**The Committee supports the Scottish Government's plans to publish multi-year spending plans which will provide much needed certainty to the public and voluntary sector and local government and achieve more efficient management of public finances across Scotland.**

**We believe that this multi-year model of funding will also allow more scope for longer-term preventative measures and cross-government collaboration to be**

**adopted and we ask for reassurances that the Scottish Government will encourage this approach, including by sharing examples of good practice.**

## Links with the National Performance Framework outcomes

28. The Framework states that "the National Performance Framework (NPF) describes the kind of Scotland we want to see and remains a cornerstone of our work". It goes on to state that "fiscal sustainability is not simply about balancing the budget every year, or even in a multi-year setting; it is about being able to ensure that we use limited resources as efficiently and effectively as possible to make progress towards our priorities and the national outcomes".
29. While some witnesses, such as COSLA, appeared to be closely aligned with the Scottish Government in what it is trying to be achieved through delivery of the NPF<sup>14</sup>, others, such as SCVO were less sure as to which of the Government's frameworks, strategies or plans were the priority. The latter point was echoed by Professor Heald who argued that "it can be challenging for Scotland's sectors and public/private/third sector organisations at any one time to work out what is the accurate definition of the Scottish Government's priorities since they are set out differently, e.g. in the NPF, Programme for Government, Resources Spending Review Framework and (potentially) the impending Economic Transformation Strategy"<sup>8</sup>. Going further, the SPF indicated that the "allocation and delivery of resource spending is subject to a very fragmented collection of initiatives and agencies of government in Scotland".<sup>6</sup>
30. The Committee has heard repeatedly that it is difficult to see how the Budget and the Spending Review link with the NPF and this view was again reiterated in evidence during this inquiry. Emma Congreve explained that, "where we often have problems and why we cannot make a link between the budget documents and the NPF is that the finance teams that work on the budget are often not given responsibility for ensuring that a budget document links to the NPF". She added that "it is for the policymakers in the individual parts of the Government to ensure this is a link, but when the big decisions are being made in the finance teams, that link does not work".<sup>8</sup>
31. The Public Audit Committee in written evidence stated its belief that effective leadership and strong governance should be a priority for the Scottish Government and are essential to the successful delivery of high-quality public services, which meet the needs of users and provide good value for money.<sup>10</sup>

**A theme running through the Committee's pre- and budget scrutiny was the extent to which the national outcomes in the National Performance Framework influence policy-making and spending decisions. Indeed, in both reports, we have recommended that "the Scottish Government considers how the National Performance Framework could be more closely linked to budget planning". We are disappointed that this recommendation remains outstanding.**

**We believe that the Spending Review provides an opportunity and some momentum to achieve closer alignment of the NPF outcomes with the Budget, the Medium-Term Financial Strategy, and spending reviews and we ask the Scottish Government to explain how this will be achieved. We agree with the Public Audit Committee that effective leadership and strong governance should be a priority of the Scottish Government, to help overcome the challenges to achieving this in practice.**

**We recently launched an inquiry on the 'National Performance Framework: Ambitions into Action' to look at these issues more closely, including the processes, systems, cultures and behaviours which support delivery of the NPF. This work will also inform the Committee's subsequent work on the Scottish Government's statutory review of the National Performance Framework outcomes due to begin with external engagement in the second half of 2022. We look forward to setting out our findings and recommendations to the Scottish Government arising from this inquiry in due course.**



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