

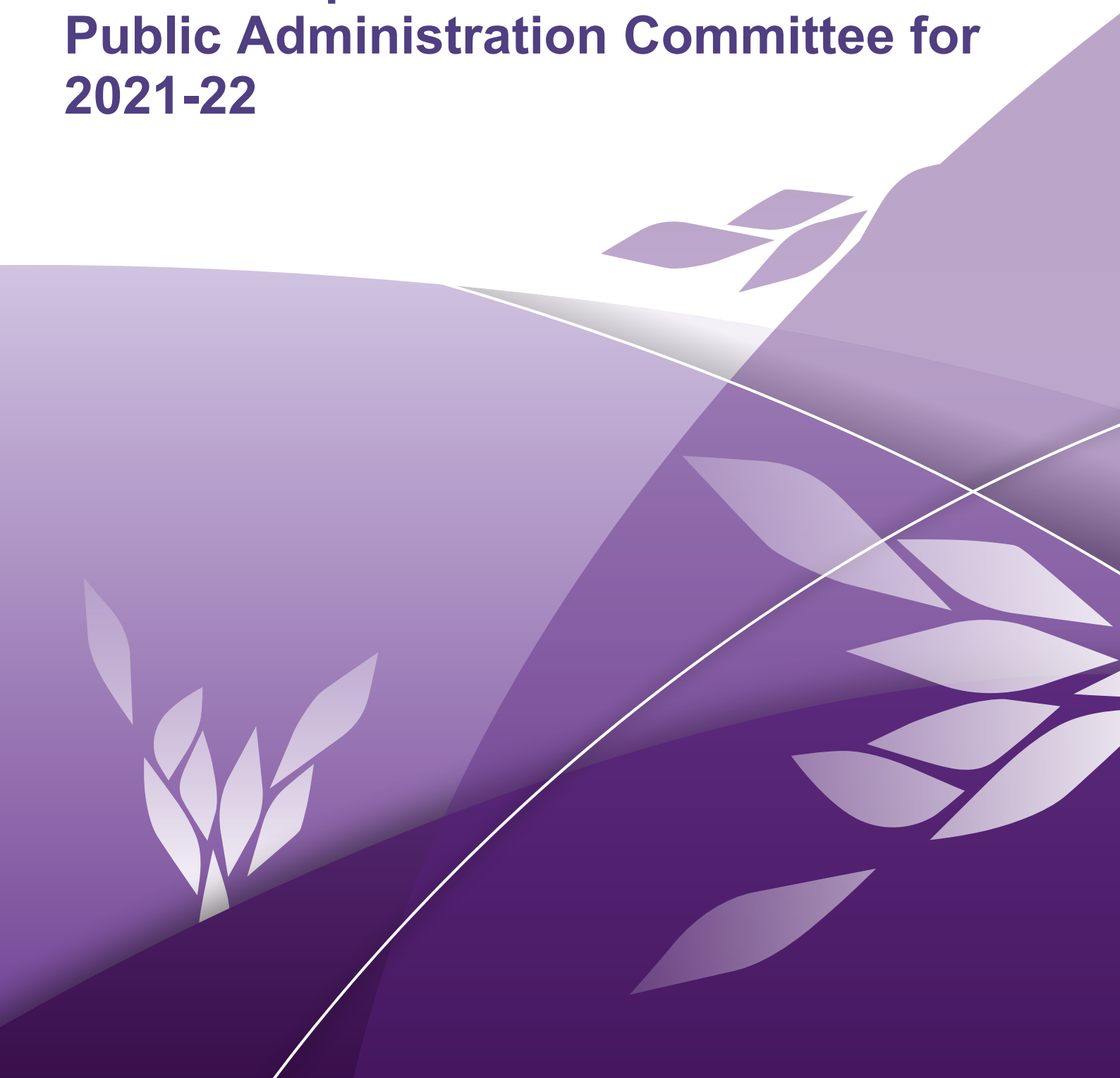


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Finance and Public Administration Committee

Annual Report of the Finance and Public Administration Committee for 2021-22



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Contents

Introduction	1
Meetings	2
Membership changes	3
FINANCE	4
Pre-Budget scrutiny	4
Budget scrutiny	4
Fiscal Framework review	6
Medium-Term Financial Strategy review	6
Resource Spending Review framework	6
Replacing EU structural funds in Scotland	7
Scottish Government's Framework for Tax 2021	7
Appointments to the Scottish Fiscal Commission	8
PUBLIC SERVICE REFORM	9
NATIONAL PERFORMANCE FRAMEWORK	10
PUBLIC ADMINISTRATION	13
Scrutiny of Financial Memorandums	14
Secondary legislation	15

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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Committee Membership



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Michelle Thomson
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Introduction

1. This report covers the work of the Finance and Public Administration Committee during the parliamentary year from 13 May 2021 to 12 May 2022.
2. This is the Committee's first annual report since its establishment in June 2021. In addition to examining Scotland's public finances, the Committee's remit has been widened to explicitly include public administration in Scotland, public service reform and the National Performance Framework.

Meetings

3. During the reporting period, the Committee met 29 times. The Committee predominantly met in person in the Parliament but on occasion met remotely using video conference technology or in a hybrid format with some participants attending in person and some attending online. Of the Committee's 29 meetings:
 - 8 meetings were held wholly in public;
 - 6 meetings were held wholly in private;
 - 15 meetings were held partly in private.
4. Committee business tends to be taken in private when draft reports and work programmes are being considered. During the 2021-22 parliamentary year, the Committee met for a total of 3,430 minutes. Of which, 2,890 minutes (84%) were in public.

Committee meeting statistics



Source: Scottish Parliament

Membership changes

5. The membership of the Committee has changed over the parliamentary year as follows:

- on 8 September 2021, Ross Greer replaced Patrick Harvie.

FINANCE

6. The Committee's work in this Parliamentary year has been carried out against the backdrop of the continuing profound effects of COVID-19 on the economy and the Scottish Budget. Its scrutiny has been informed by advice from Mairi Spowage, Director of the Fraser of Allander Institute, who was appointed as Committee Adviser on 31 August 2021.
7. The Committee's first evidence sessions, with the Scottish Fiscal Commission¹ (SFC) and the Cabinet Secretary for Finance and the Economy, focussed on the SFC's reports, [Scotland's Economic and Fiscal Forecasts](#), the [Fiscal Update](#) and the [Supplementary Forecast Evaluation Report](#), which set the scene for the Committee's pre-budget scrutiny.

Pre-Budget scrutiny

8. The Committee's pre-budget scrutiny focussed on the impact of COVID-19 on the public finances in Scotland. After taking written and oral evidence, the Committee in its report, [Pre-budget Scrutiny: Scotland's Public Finances in 2022-23 and the Impact of COVID-19](#), noted that public finances would be under significant pressure in the years to come and the Scottish Government would continue to face difficult decisions on how it prioritises spend and raises revenue.
9. The Committee asked the Scottish Government to explore which policy interventions would have the greatest impact on cross-cutting issues, such as addressing inequalities and poverty and that this approach be prioritised in the upcoming resource spending review and the annual Medium-Term Financial Strategy. The Committee also recommended that the UK and Scottish Governments consider, as part of the upcoming review of the Fiscal Framework, how multi-year budgets can be achieved more routinely. The Committee further had concerns that the Scottish public sector would incur additional costs as a result of the proposed increase in employer national insurance contributions, under the UK Government's Health and Social Care Levy.
10. The Scottish Government responded to the report on [9 December 2021](#) with the Cabinet Secretary stating

” "I recognise the Committee's views on the need for effective intergovernmental relations, greater transparency and scrutiny, and improving public awareness and understanding of the budget process"

and a commitment that the Scottish Government would continue to work together with the Parliament to meet these challenges.

Budget scrutiny

11. The [Scottish Budget 2022-23](#) was published on 9 December 2021, alongside the Scottish Government's fourth [Medium-Term Financial Strategy](#) (MTFS) and its [Investing in Scotland's Future: Resource Spending Review Framework](#) (RSR

Framework).

12. In the [Budget Scrutiny 2022-23](#) report, the Committee expressed its deep concern that Scotland appeared to be lagging behind almost all other areas of the rest of the UK in key indicators of economic performance and that the latest SFC Forecasts showed Scotland's income tax receipts falling behind the Block Grant Adjustment, which the Committee considered could put Scotland's future fiscal sustainability at risk.
13. The Committee pressed for greater transparency regarding the headline figures which it felt would assist effective scrutiny around Scotland's public finances suggesting that, in future years, the Scottish Fiscal Commission's forecasts should form the basis of budgetary calculations. It further continued to highlight the benefit of greater co-operation between the Scottish and UK Governments.
14. The Scottish Budget 2022-23 was published at a time when information on the effects of the then latest variant of the virus (Omicron) was limited. The increased transmissibility of the virus and increasing case numbers led to the reintroduction of some restrictions affecting individuals and businesses in Scotland, along with announcements of additional financial support.
15. However, the Committee noted the difficulties in keeping track of the Scottish Government's Covid-19 spending. This was partly due to the large number of policy announcements that the Scottish Government made which reflected the fast-moving nature of the crisis and the regularly evolving status of its budget.
16. The Committee reported that, in the interests of transparency and efficient management of Scotland's public finances, both Governments should - as part of the Fiscal Framework review - agree a process by which Barnett consequentialia are clearly communicated to bring greater certainty over what is 'new' money and what is being re-profiled.
17. The Committee had concerns that tracking Covid-19 related funding would become even more challenging over time, stating that it was imperative that the Scottish Government continued to provide full, transparent and timely information on all Covid-19 allocations. This was to improve tracking and scrutiny but also to assist in learning lessons for any future emergencies.
18. The Scottish Government's [response](#) acknowledged the importance of the SFC forecasts stating the

” “Budget Document provides comparisons with the 2021-22 Scottish Budget whereas the Scottish Fiscal Commission compares the 2022-23 budget with the latest estimate of 2021-22 funding. Both comparisons are applicable and indeed I would agree with the committee that it is important to focus on the Scottish Fiscal Commission's comparatives.”
19. The Committee considered amendments to the [Budget Bill](#) at Stage 2 on 1 February 2022 and the Bill was passed by the Parliament at Stage 3 on 10 February 2022.

Fiscal Framework review

20. The Fiscal Framework sets out the arrangements required to go alongside the devolution of new tax and welfare powers to the Scottish Parliament in 2016. However, both the UK and the Scottish Governments agreed there should be a review of the block grant adjustment (BGA) mechanisms informed by an independent report, which has now been delayed from December 2021. The Committee stated in its *Budget Report 2022-23* that it believes that continued slippage in starting this work, and resulting delays to delivering its outcomes, is detrimental to the effective management of the Scottish Budget.
21. In January 2022, in anticipating the forthcoming independent report, the Committee took evidence on the BGA mechanism from experts to inform its response to the call for views the Scottish Government had confirmed would form part of the independent report.
22. At the time of this report, final agreement on the terms of the independent report, and the wider review by the UK and Scottish governments, has yet to be confirmed.

Medium-Term Financial Strategy review

23. As mentioned above, the Scottish Government published its fourth MTFS in December 2021. This set out its five-year perspective on the sustainability of Scotland's public finances.
24. The Committee undertook a focussed review of the content of the MTFS and how well it delivers on its purpose.
25. After gathering written evidence from stakeholders, the Committee [wrote](#) to the Cabinet Secretary for Finance and the Economy on 23 February 2022, confirming that the MTFS remains a helpful part of the budget process, but recommending some improvements to better support committee scrutiny. These included: key information should be presented in a consistent way from year-to-year; and that a definitive single statement of relevant tax and spending policies should be factored into the MTFS.
26. The Cabinet Secretary [responded](#) on 4 March 2022 confirming that the Committee's recommended improvements would be considered in detail as the MTFS is developed.


Resource Spending Review framework

27. On 9 December 2020, the Scottish Government published a consultative document for its first resource spending review since 2011, *Investing in Scotland's Future: resource spending review framework*.
28. The Committee carried 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. The Committee made [several recommendations](#) on the

consultative document including an ask that consideration be given to whether Covid recovery should feature more prominently in this Spending Review, given this was an emerging theme in other strands of the Committee's work.

29. The Committee also reported that it believed that the Spending Review provides an opportunity and some momentum to achieve closer alignment of the National Performance Framework outcomes with the Budget, the Medium-Term Financial Strategy, and spending reviews and asked the Scottish Government to explain how this will be achieved.
30. The Cabinet Secretary [wrote](#) to the Committee confirming that the Committee report will be considered as part of the analysis of responses to the consultation.

Replacing EU structural funds in Scotland

31. At its meeting on 24 February 2022, the Committee [took evidence](#) from the Rt. Hon Michael Gove MP, Secretary of State for Levelling Up, Housing and Communities and Minister for Intergovernmental Relations on the UK Government's plans for replacing EU funding. This includes its one-year Community Renewal Fund and the subsequent UK Shared Prosperity Fund (UKSPF), as well as the Levelling Up Fund.
32. Informed by [evidence](#) gathered from Scottish local authorities, the Committee explored with the Secretary of State how funding is allocated in Scotland, the outcomes it should achieve, and transparency and accountability arrangements for UK Government funding in devolved areas. The Committee sought further information in its [letter](#) of 30 March 2022, noting that, to support effective scrutiny and have a clear overall picture of public spending in Scotland, the Committee will  “look to explore a more formal reporting role for the Scottish Parliament in relation to these Funds”.
33. The Committee has invited the Secretary of State to give evidence later in the year once the UK Shared Prosperity Fund has bedded in.

Scottish Government's Framework for Tax 2021

34. The Scottish Government's first [Framework for Tax](#) was published on 16 December 2021. The Committee took [evidence](#) from the Minister for Public Finance, Planning and Community Wealth on this Framework on 22 March 2022, when issues explored included how the principles in the Framework underpin a Scottish approach to taxation and how current tax policy aligns under these principles and the strategic objectives in the Framework.
35. The Committee has agreed to take forward further work on the Scottish approach to taxation in the coming months.

Appointments to the Scottish Fiscal Commission

36. The Cabinet Secretary for Finance and the Economy wrote to the Committee on 19 April 2022 with her nominations for the appointment of a new Chair and Commissioner to the Scottish Fiscal Commission (SFC). After [taking evidence](#) from Professor Graeme Roy in relation to the position of Chair and from Dr Domenico Lombardi regarding the position of Commissioner, the Committee approved the nominations, along with two reappointments to the Commission. These were subsequently agreed by the Parliament.

PUBLIC SERVICE REFORM

Public service reform and the Christie Commission

37. The Christie Commission in 2011 set out four key principles for improving the delivery of public services: participation – empowering individuals and communities by involving them in the design of services; partnership working – to create more integrated services that improve outcomes; prioritising expenditure on prevention; and reducing duplication of services to become more efficient.
38. To understand this new part of its remit, the Committee took evidence in November 2021 on the progress made in embedding the Christie Commission principles. Witnesses highlighted that, while support remains for the Christie principles, limited progress had been made and some ‘silo-working’ in the Scottish Government remains. In a subsequent evidence session, the Deputy First Minister and Cabinet Secretary for COVID Recovery (and responsible for PSR) reiterated the Scottish Government's ongoing support for Christie but explained that *“making Christie a reality requires a collective national endeavour.”*

NATIONAL PERFORMANCE FRAMEWORK

39. The Scottish Government introduced a new outcomes-based National Performance Framework (NPF) in 2007 which It explains sets out its ambitions for society and the values that guide its approach. The NPF was refreshed in 2011 and in 2016 with the next review due in 2023.
40. One of the purposes of the cross-cutting NPF (which ‘underpins’ the Budget) is “*to increase the wellbeing of the people of Scotland*”.
41. In addition to exploring progress with the NPF through its budget scrutiny this year, the Committee also launched an inquiry in March 2022 looking at how the NPF and National Outcomes shape Scottish Government policy aims and spending decisions and, in turn, how this drives delivery at national and local level.
42. This work is examining the NPF from a public administration lens, looking at processes, cultures, systems and behaviours that support delivery of the NPF. Alongside written evidence, the Committee held its first in-person engagement events with Scottish Government officials and, separately, with a range of public sector, local authority, voluntary sector and business participants in Glasgow and Dundee.

National Performance Framework Event in Dundee on 10 May 2022



Source: Scottish Parliament

National Performance Framework Event in Glasgow on 10 May 2022



Source: Scottish Parliament

43. The Committee will continue its inquiry with oral evidence in late May, and then plans to report its findings later in 2022.

PUBLIC ADMINISTRATION

44. The public administration element of the Committee's remit include oversight and scrutiny of the way in which government exercises its overall functions and the quality and standards of administration provided by the civil service in the Scottish Government.

Implementation plan progress and updated complaints procedure

45. As part of this new remit, the Committee is responsible for examining the Scottish Government's response to the [report of the Committee on the Scottish Government's Handling of Harassment Complaints](#) (SGHHC Committee) published in March 2021 and two other related reviews by Laura Dunlop QC and James Hamilton. The report sought improvements within government in relation to its cultures and behaviours, openness and transparency, governance and oversight, records keeping and information management.
46. The Committee took evidence from the Deputy First Minister on [25 January](#) and [26 April 2022](#) regarding progress in delivering the Scottish Government's [Continuous Improvement Programme](#) (CIP), which is part of its response to the three reviews. The CIP sets out *"the activities that the Scottish Government will develop in 2022 to ensure that the updated complaints procedure is not seen in isolation but is set within a wider context that fosters a culture of openness and inclusion"*. Also discussed with the Deputy First Minister was the updated procedure for complaints by civil servants against Ministers and former Ministers.
47. These issues remain of ongoing interest to the Committee.

Public administration in the Scottish Government – evidence session with the new Permanent Secretary

48. In seeking to inform the new public administration aspect of the Committee's scrutiny, Members were keen to draw on the former Permanent Secretary's insights and reflections of how government works. Regrettably the invitation was [declined](#) and the Committee therefore moved on to taking [evidence](#) from the new Permanent Secretary to the Scottish Government, appointed on 01 January 2022, on his aims and vision for the Scottish Government and its workings. The Committee explored issues relating to the culture within the government, its approach to openness and transparency, record-keeping and the relationship between the UK and Scottish civil service.
49. The Committee intends to hold regular evidence sessions with the Permanent Secretary to scrutinise how government is operating.

Scrutiny of Financial Memorandums

50. The Committee scrutinises Financial Memorandums (FM) that set out the estimated financial implications of legislation. Each Bill that is introduced in the Parliament must be accompanied by a FM. Throughout the course of this year, the Committee issued a call for views on nine FMs in total and provided the responses to lead committees for further consideration.

Secondary legislation

In total, the Committee considered three Scottish Statutory Instruments during its reporting period—

- two made affirmatives;
- one draft affirmative.

The Committee's Scottish Statutory Instruments reports can be found on the Parliament's [webpage](#) ('Reports').

- 1 The Scottish Fiscal Commission is the independent fiscal institution for Scotland

