

Response ID ANON-JMAZ-6G8M-M

Submitted to Resource Spending Review Framework
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Questions

1 In Chapter 1 we have identified three priorities to guide the Resource Spending Review process. Setting these as priorities helps us consider where spend should be targeted and re-directed. Do you agree that our resource spending should focus on these? We welcome your view on these priorities for the Resource Spending Review.

Please give us your views.:

Before answering this question, there are certain preliminaries.

I am Professor of Public Sector Accounting at the Adam Smith Business School, University of Glasgow. I have a longstanding research and policy interest in Scottish devolution finance. Sole responsibility for the contents of this memorandum rests with myself.

I responded to the separate consultation on the Resource Spending Review conducted by the Finance and Public Administration Committee of the Scottish Parliament. My written submission to that consultation appears on the Committee's website, as does the transcript of the oral evidence session on 8 March 2022 at which I was a witness.

The web-based format of this Consultation does not work well for referencing, so all references appear at the end of Question 6.

The decision of the Scottish Government (2021b) to conduct a Resource Spending Review (RSR 2022) covering the period 2022-23 to 2026-27 is most welcome. Since the end of the last Scottish Spending Review period in 2014-15, circumstances have meant that public spending has been planned annually, but that is not an efficient approach.

It is vital that RSR 2022, when published in May 2022, is a planning document and not a bidding document. All budgetary documents are political, but this should be proportionate. Whatever the future constitutional arrangements might be, public spending in the 2020s is going to be heavily constrained by the economic context. The framework document never misses an opportunity to complain about financial constraints, as if these were wholly attributable to present funding arrangements. This tone diverts attention from constraints which might plausibly be relaxed. A feature shared with Treasury documents is the use of language such as 'investing' and 'investment' in reference to public consumption. The persuasive intention is obvious, but this does not advance serious analysis: investment is not necessarily good, and consumption legitimately represents the bulk of public spending.

Establishing spending priorities for the full session of the Scottish Parliament is clearly desirable. However, this means that 2025-26 and 2026-27 are particularly uncertain, because these fiscal years are beyond both the period of the 2021 UK Spending Review (Treasury, 2021b) and the next UK general election, after which another UK Spending Review can be expected. Nothing can be done about this timing mismatch which, alongside the recovery from COVID-19, adds to uncertainties later in the period. Although outside the scope of this response, the Scottish Government's Medium-Term Financial Strategy (Scottish Government, 2021c) is clearly relevant.

This response focuses on preparations for RSR 2022. However, this is one part of the broader financial picture, other crucial parts being the Capital Spending Review (Scottish Government, 2021c) and tax policy decisions. After the Smith Commission (2014), the Scottish Parliament exchanged funding certainty for some tax policy discretion. The relative performance of the Scottish economy, and hence Scottish tax revenues, now influences the total available resources to the extent of tax proceeds being higher or lower than the Block Grant Adjustment (BGA). My own view (Heald, 2016) was that the 2016 Fiscal Framework, incorporating both the per-capita method and revenue-productivity multipliers, was a better deal for Scotland than might have been expected. However, Bell et al. (2021) show that, notwithstanding the higher tax effort in relation to Scottish Income Tax, the BGA now exceeds tax revenues. These developments emphasise the importance of relative-to-UK Scottish economic performance to the Scottish Government's budgetary position.

Turning now to Question 1.

The framework document (Scottish Government, 2021b) states three priorities:

To support progress towards meeting our child poverty targets

To address climate change

To secure a stronger, fairer, greener economy

Few would argue with these aspirational objectives, but they do not constitute priorities for the specific tasks of RSR 2022. The priorities should be repairing the economic and social damage attributable to COVID-19, paying close attention to improving the performance of public services and sustaining the post-COVID-19 economic recovery on which Scottish Government funding now partly depends. While making such plans, attention should certainly be paid to the aspirational objectives, the accomplishment of which also depends on UK and Scottish policies outside the scope of RSR 2022 decisions.

The overarching priorities stated in the framework document are mismatched to the tasks of RSR 2022. In brief, these should be:

Supporting economic and social recovery from the direct and indirect effects of COVID-19

Improving the efficiency of Scottish public services

Improving relationships with Scottish local authorities

Ensuring that forward financial plans are fiscally sustainable in light of the COVID-19 legacy and the demographic challenges vividly illustrated in the three

scenarios presented for each of the major spending areas.

Such are the uncertainties in relation to Barnett formula consequentials, BGAs and devolved tax revenues, that it would be advisable in the later years of RSR 2022 to establish a substantial Contingency Reserve. This would create flexibility in responding to developing events without having to reduce previously announced budget allocations. The political difficulties of running such a Contingency Reserve are recognised (eg initially announced budget allocations are lower) but the benefits would materialise later in the Parliamentary session.

Structuring the Scottish Budget in terms of functional activities has the advantage of corresponding to ministerial responsibilities. However, there are two points which should be remembered. First, there is a trend for health and social care spending to dominate public budgets, increasing the downward pressure on other budgets. Second, the most effective way to improve the health of Scotland's population is not always to spend on programmes labelled as 'health' rather than on other programmes (eg housing and environment). Getting the balance of expenditures right is a challenge for all governments, especially in the context of demographic ageing and sudden shocks like COVID-19.

The stated priorities for RSR 2022 are higher level than the 81 indicators of the National Performance Framework. As of 19 January 2022 (Scottish Government, 2022), most indicators are 'Maintaining' (59%), while some are 'Improving' (17%) and some 'Worsening' (12%). In the context of post-COVID-19 economic difficulties and the likely constraints on the total Scottish Budget, it is important that decisions are taken within RSR 2022 about what the Scottish Government's priorities are at the level of National Indicators. Prioritisation requires choices to be made between outcomes that are all valued, some of which the Scottish Government has more policy control over than others.

2 In Chapter 2 we have identified the primary drivers of public spending over the Resource Spending Review period. We welcome your views on these and any other public spending drivers you think we should consider.

Please give us your views.:

The scenario modelling in the framework document illuminates the scale of budgetary challenges, particularly by presentation of Upside and Downside variants on the Central Scenario. Given the uncertainties outlined above in relation to UK spending and tax policy, Table 1 on resource funding is a matter of intelligent guesswork. Figure 1 on population change by age group between 2000 and 2020 shows pronounced changes, with implications for demands on public services, and the possibility that these might accelerate. The worrying aspect of the scenario modelling in relation to adult social care expenditure and health spending is the prospect that the high-spend scenarios might materialise.

The present context is exceptionally uncertain. In common with other OECD economies, the UK Government made a huge fiscal response to the economic and social disruption caused by COVID-19. This produced a drastic fiscal deterioration in UK public finances at a time when the Office for Budget Responsibility (2020) was already signalling that UK public finances were unsustainable on present policies. The long-term paralysis of UK tax policy, together with increased political polarisation, render well-designed tax reform impossible. This leads to a situation in which tax measures, such as the Health and Social Care Levy, add to inefficiencies and inequities rather than resolving them (Heald, 2020). At the UK level, it will prove difficult to eliminate the emergency expenditures and tax reliefs associated with the COVID-19 fiscal response. Moreover, there is great uncertainty about the future fiscal direction of the UK Government in terms of spending and tax levels.

An important feature of the 1999 devolved fiscal settlement was the relatively clear distinction between functional expenditure which was devolved and that which was reserved. The aftermath of Brexit is blurring this distinction, with the UK Government wishing to spend on public services which are functionally devolved. There are two main dangers in this. First, it weakens lines of accountability, encouraging games of credit claiming and blame shifting. Second, it makes it more difficult for the Scottish Government to set priorities, especially if Scottish public bodies become heavily involved in bidding for UK-controlled resources in the way that has become dysfunctional in England.

The RSR 2022 provides an opportunity to review the pattern of devolved public spending after more than two decades of devolution. The ability of the Scottish Government to determine its own priorities within the block system is a valuable feature. The first decade of devolution was one of fiscal plenty, when new commitments could be readily accommodated, but the second and third decades are characterised by fiscal scarcity. While asserting the value of determining its own priorities, the Scottish Government has to be careful about commitments which have no comparator in England and therefore do not generate Barnett formula consequentials, and have to be accommodated at the expense of other programmes. The Northern Ireland Fiscal Council (2021) usefully analysed spending by the Northern Ireland Executive which is 'above parity' and 'below parity'. Expenditure items which are 'above parity' require particular attention in forward planning, as these impose opportunity costs on other devolved functions. 'Below parity' items are scarce. For Scotland, this is a particular consideration in relation to devolved social security benefits, for which the demand-led expenditure drivers are not necessarily well understood.

3 In Chapter 2 we identified the growth of the public sector workforce as a key driver of public spending. How can we use policy interventions to maximise the value achieved from the public sector workforce in the effective delivery of public services, while ensuring the sector is an attractive, rewarding place to work? We welcome your views on this.

Please give us your views.:

It has long been known, for example from the annual Public Expenditure: Statistical Analyses (Treasury, 2021a) that per-capita public spending is higher in the devolved nations than in England. Unsurprisingly therefore, Figure 2 shows that public sector employment is also higher. What is required is disaggregation, for example distinguishing employment in activities which are not in the public sector in England (eg water and sewerage), or where there is more extensive contracting out in England, or where a larger proportion of the Scottish population uses public services (eg health and education). Unadjusted data comparisons can be misleading: a frequent one is to compare the level of public sector earnings with private sector earnings, without recognising the higher qualifications of the former and the fact that there has been considerable outsourcing of lower-skilled occupations.

4 In Chapter 3 we have identified a number of ways in which we will be exploring how to get best value out of Scotland's public spending. We welcome your views on these, and other ways to maximise the positive impact of public spending.

Please give us your views.:

Getting best value out of Scotland's public spending is of manifest importance, especially as the 2020s look like being another difficult decade. I

developed several points in my oral and written evidence to the Finance and Public Administration Committee.

I would emphasise three points, some of which can be taken up in the Resource Spending Review whereas others are for later:

(1) 'Above-parity' spending which has accumulated since 1999 does not bring Barnett consequentials. Most of these were committed to in the 2000s' decade of plenty. This does not mean that Scotland's policy choices were wrong then or are wrong now, but it does mean that such expenditure should be carefully tracked and projected through time. I would expect progress on this, in terms of data transparency, when the Resource Spending Review is published in May 2022;

(2) There is scope for international benchmarking, including using OECD data; and

(3) Matters of public spending and taxation are always interpreted through political lenses, and there is no point complaining about this rather than learning how to live with it. There are costs to the political paralysis about local taxation (a problem across the UK), but there is a specific Scottish problem in that everything is interpreted with reference to the constitutional future of Scotland. This inhibits action by the Scottish Government and makes it difficult to establish cross-party support even where ideological differences are subdued.

5 In Chapter 3 we have shared that we will be conducting an equality assessment of the Resource Spending Review's findings. We welcome your views on any particular equality and human rights impacts which we should consider in the context of the priorities (question 1) and primary drivers of public spending (question 2) we have set out.

Please give us your views.:

The wording of this Question seems to imply that the equality assessment will be done retrospectively. UK experience with Spending Reviews is that important decisions are made close to publication date, and some will have equality and human rights impacts.

I understand the tight timing constraints faced by the Scottish Government. However, for consultation to be effective, it must come much earlier so that further analytical work can then be done within the Scottish Government. The public consultation closing date of 27 March 2022 is perilously close to the May 2022 scheduled publication date of the Resource Spending Review. I hope that, while the consultation has been proceeding, Scottish Government staff have been conducting analytical studies both of programme performance and of equalities and human rights impacts of alternative spending choices.

6 In Chapter 3 we shared that this Resource Spending Review is taking a consultative approach to ensure that we engage with people and organisations across Scotland as we develop multi-year financial plans. Our intention is to use the Resource Spending Review to continue the Scottish conversation on public spending going forwards. We welcome your views on how best to continue our engagement with people and organisations after the Resource Spending Review.

Please give us your views.:

I have already emphasised the point about the timing of consultation in relation to the decision point.

On the technology used for the consultation, I have two points:

(1) As well as setting out Questions to be answered, it would be helpful if a box could be provided where respondents can comment on other aspects which are not the subject of Questions; and

(2) The facility to print out the evidence one submits is useful, but this is after hitting the submission button. I could not work out how to print out a draft for review before submission; such a facility would be helpful.

References

Bell, D., D. Eiser and D. Phillips (2021) Options for Reforming the Devolved Fiscal Frameworks Post-Pandemic, IFS Report R207, London, Institute for Fiscal Studies.

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Treasury (2021b) Autumn Budget and Spending Review 2021: A Stronger Economy for the British People, HC 822 of Session 2021-22, London, HM Treasury.

About you

What is your name?

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Are you responding as an individual or an organisation?

Individual

What is your organisation?

Organisation:
Not applicable

How would you categorise your organisation?

Not Answered

if you selected other, please provide a category for your organisation:
Not applicable

The Scottish Government would like your permission to publish your consultation response. Please indicate your publishing preference:

Publish response with name

We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

Yes

I confirm that I have read the privacy policy and consent to the data I provide being used as set out in the policy.

I consent

Evaluation

Please help us improve our consultations by answering the questions below. (Responses to the evaluation will not be published.)

Matrix 1 - How satisfied were you with this consultation?:
Slightly dissatisfied

Please enter comments here.:

The consultation deadline is too close to the May 2022 scheduled publication of the Resource Spending Review for the responses to have much impact on what work is done within the Scottish Government ahead of political decisions. My response acknowledges the timing constraints faced by the Scottish Government.

Matrix 1 - How would you rate your satisfaction with using this platform (Citizen Space) to respond to this consultation?:
Slightly dissatisfied

Please enter comments here.:

Very restrictive in terms of including urls and text formatting such as bold, bullet points etc. No opportunity to proof read the pdf before submission.