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Finance and Public Administration Committee

Tuesday 8 February 2022

Summary of Evidence on Scottish Government Framework for the Resource Spending Review

This paper provides a summary of the evidence received by the Committee on the Scottish Government's framework for the Resource Spending Review.

Committee call for evidence

On 13 December 2021 the Committee launched a call for views on the Scottish Government's consultative framework document on its forthcoming Scottish Resource Spending Review. The call for evidence closed on Tuesday 25 January.

The questions asked were as follows:

- How clearly does the framework set out the Scottish Government's priorities for the resource spending review?
- What should be the overarching priorities in the resource spending review and how adequately are these currently covered in the framework?
- Does the framework properly reflect the current economic and political context?
- How does the framework approach cross-cutting issues, long-term challenges such as demographic trends, and preventative approaches?
- How well do the priorities in the framework link in with National Performance Framework outcomes?

A total of 14 responses were received and this paper summarises them – a list of organisations/individuals responding is provided in the Annex to this paper.

How clearly does the framework set out the Scottish Government's priorities for the resource spending review?

The Spending Review framework document states three priorities:

- To support progress towards meeting our child poverty targets
- To address climate change
- To secure a stronger, fairer, greener economy

David Heald's submission states that "few would argue with these aspirational objectives, but they do not constitute priorities for the specific tasks of RSR 2022." He argues that:

> "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 Health and Social Care Alliance (the ALLIANCE) state that the Scottish Government's spending review priorities around tackling child poverty, climate change the economic impact of COVID-19 "are closely aligned to the key areas of importance to our membership".

Not surprisingly, the Child Poverty Action Group submission welcomes the inclusion of tackling child poverty as one of the three priorities for the resource spending review.

It cites the introduction of the Scottish child payment and the commitment in the 2022-23 draft budget to double its value from April 2022, alongside wider investment in policies which tackle child poverty, as being "vital steps towards meeting these targets. These provide welcome support for low income families in Scotland."

> "However as yet resource allocation is insufficient to meet the government's own child poverty targets. …
>
> It is indeed vital that the plans developed through the review set Scotland on the path to meet the 2030-31 target. However, as the framework covers the period including 2023-24 when the interim child poverty target (2) is due to be met, it must also include resource allocation to ensure the government meets this target.

On the three priorities set out in the framework, the Child Poverty Action Group stresses their inter-linked nature.

> It is welcome that the framework outlines the ambition to address all three of the priorities in tandem. 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. For example, an approach to improving energy efficiency in homes must have at its heart the reduction of energy costs for low income households. All policy streams should be approaching their work with a child poverty lens to ensure that ending child poverty is embedded across government. All of Scotland's policy levers, tax and spending powers must be used to the fullest to ensure families have the resources they need to give their children a decent start in life."

The Convention of Scottish Local Authorities (COSLA) submission welcomes that the approach to the Spending Review is intended to be outcomes focused although

> "we will want to understand how this is to be set out in practice and how Local Government can bring its influence to bear on this. Local Government has had experience of Scottish Government's desire to focus on outcomes – Single Outcome Agreements; Community Plans; Local Outcome Improvement Plans; National Performance Framework – yet we continue to measure inputs and outputs at a granular, funding level…
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> With employability funding especially this has been notified late in the financial year and limited to spending by 31st March. This mitigates entirely against planning for priorities over more than one year and creates significant challenges for Local Government in seeking to support economic recovery. Local Government welcomes funding to achieve outcomes but this needs to be accompanied by the flexibility and certainty of funding over more than one year to enable Councils to work to improve outcomes in a way that works for local circumstances."

Like other submissions to the Committee, COSLA is

> "concerned that, whilst the framework is laudable in its ambitions, the Spending Review itself will not necessarily offer the planning and financial certainty over multiple years that Local Government needs. The Spending Review needs to be set out at a level which gives clear direction on the level of funding which Local Government and public sector providers can expect over the period. We owe this to our own workforce and to the services we commission from the third and independent sector."

Colleges Scotland make the point that although the Government has clearly set out their priorities, "it is far less clear what the role of different key stakeholders will be in supporting the Scottish Government to meet these priorities in practice." They continue:

> "The harm which has been caused to young people, individuals in work of all ages, and to the structure of the economy, requires a strong skills-led recovery over the coming years. Scotland's colleges are the best place for the seeds of recovery to take hold and flourish, already holding the expertise and ability to deliver reskilling, upskilling, career improvement and holistic support to people locally and regionally, across the country. Colleges already support a disproportionate amount of people from the most deprived SIMD areas into employment and opportunities, tackling poverty and providing equity of opportunity and student experience."

A similar point is made in Universities Scotland submission, which states that it "approaches the multi-year resource spending review with both hope and concern." While welcoming the consultative approach that the Scottish Government is taking, it is concerned that by prioritising Health, social care and social security:

> "put bluntly, other areas of Scottish public life that should be prioritised for investment, including higher education, look as if they will have to fight for the leftovers from the highest-priority commitments. As stated in section 2.2.4 of the framework: 'With limited resources, increased investment in the Scottish Government's priorities will require efficiencies and reductions in spending elsewhere.'
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> As an area not singled out for priority in the framework, we are seriously concerned that higher education will be a victim of Scottish Government's 'hard choices'. The result will be a sector that is less well-equipped to drive progress in several outcomes across the Framework, including enhancements to employment and earnings growth which would help to address the projected negative block grant adjustments."

Universities Scotland points out that with the framework is of resource spending whilst funding for university research and innovation is now categorised as capital funding and so is covered by the Government's separate and earlier review of capital spending published last year.

> "That capital review projects further real terms erosion of support for research and innovation over the coming years. Whilst capital funding is not in scope of this consultation, we think this is highly relevant given the role capital spending (on infrastructure and research) will inevitably have in meeting at least two of the Scottish Government's priorities of climate change and greener, fairer growth.
>
> University research and innovation make a significant contribution to economic growth and to achieving the Scottish Government's net zero ambitions. Scotland's innovative capacity in hydrogen and the potential growth for green manufacturing and jobs creation (projected in the region of 300,000) in hydrogen as a green fuel is vast and underpinned by research strengths in universities. This is just one example. However, as the level of public investment in university research (through the Research Excellence Grant [REG]) falls, so too does Scotland's ability to leverage additional inward investment into Scotland from competitively-won UKRI funding and other sources. To illustrate this numerically, as real-terms investment in REG has fallen, Scotland's share of UKRI funds has fallen from 15.4% in 2013/14 to 12.96% in 2019/20. Every percentage point lost equates to a loss of £20 million of resource that could have come to Scotland, supporting the economy and jobs.
>
> We have to note the comparative picture of investment in research in Scotland relative to England where there is a UK Government commitment to increase spending on research and development to 2.4% of GDP. Due to underinvestment, Scotland is losing an opportunity to maximise the sector's

> contribution to the goal of fairer and greener economic growth. Enhanced support for REG may flow from either resource or capital sources.”

The Chartered Institute of Housing state that Achieving each of the Government’s Spending Review priorities will require a housing system that is fit for purpose and a human rights approach to the provision of adequate housing.

> “The cost of housing has a significant impact on poverty levels with high housing costs impacting households’ ability to cover the cost of other essentials and limiting choices about the type and location of housing available. Analysis from Joseph Rowntree Foundation suggests that comparatively lower housing costs are one of the main reasons for lower poverty rates in Scotland compared to England. However, rising housing costs and cuts to social security from the UK Government make this a very fragile advantage. Three in 10 children in Scotland are living in households that have to spend more than 30 percent of their income on housing. There is a clear need to invest in more affordable housing to tackle child poverty.”

The Chartered Institute of Housing submission also points to the housing sector being key to meeting net-zero emissions targets as all homes will need to be energy efficient and the majority of households will need to switch to low or zero-emissions heating by 2045.

> “However, in order to fulfil this role, local government needs resources and skilled staff…
>
> New housing development and energy efficiency retrofit provide an opportunity to create highly skilled, well paid jobs across Scotland and create communities to support local economies. A report published by the Existing Homes Alliance Scotland (EHA) in 2021 estimates that between 12,900 and 13,800 skilled jobs could be created in Scotland every year in the energy efficiency and retrofit sector. In addition, the low carbon sector could create and sustain around 3,300 jobs each year based on a population estimate or up to 7,800 jobs based on levels of Renewable Heat Incentive funding attracted to Scotland previously. Scottish Government support for the transition away from fossil fuel towards renewable energy will be key to creating a stronger, fairer, greener economy.”

Children in Scotland state that the priorities set out in the framework are “all broadly speaking in the right area” however, “we believe that actions to support a stronger, fairer and greener economy will require a shift in Scotland’s current approach to the economy.” Specific points to the Committee include:

- “Sustainable funding for children’s services across the statutory, third and private sectors, across all five years of the next Scottish Parliament…. we are still deeply concerned that organisations do not have the funding to plan long term and to develop the relationships that are vital to supporting the people they work with.

- We would encourage the committee to explore future funding for the children’s sector and to take a focus on how the spending review can ensure sustainability for all organisations and stability for the children, young people and families that they work with."

- "Produce a comprehensive Wellbeing Budget by 2022. This will ensure that the annual Scottish budget is designed and implemented with the goal of improving the wellbeing of all citizens in Scotland, including children, young people and families."

Paths for All broadly support the priorities in the Spending Review framework, and welcomes the intention to publish multi-year spending plans in May 2022 to provide stakeholders, delivery partners and organisations and individuals across Scotland with some certainty on which to base their own forward planning.

> "Multi-year planning helps effective investment - particularly for longer term programmes, many of which are linked to climate action.
>
> We understand that when public finances are tighter, this will remain a challenge but it is a more effective and efficient way to support the third sector. NGOs seek more certainty about funding to allow planning for more than one year at a time. Multi-year budgets will help them to plan more efficiently as we emerge from the pandemic."

The Scottish Council for Voluntary Organisation (SCVO) "welcomes the underpinning of this approach through an outcome focused, evidence based, consultative strategy". However, the submission is critical of the Government's approach to the voluntary sector in recent years and the lack of funding certainty:

> "given how central voluntary organisations will be to the realisation of these priorities, the framework provides a critical lack of recognition of the acute financial challenges facing the voluntary sector. Despite all the warm words over many years, Scotland's voluntary organisations have consistently had to deal with intense financial pressures, which this framework sadly appears not to address…
>
> We do welcome the reference in the document to the need for an increase in grant funding to support the third sector response to higher service demand brought on by to the cost of living crisis. However, the framework needs to go further than that in articulating how it will address sector sustainability. SCVO believes this rise in energy costs and high inflation will compound issues of insecure annual funding, lack of timely payments, and the omission of core costs and inflationary uplifts in many funding arrangements. This tough environment is preventing voluntary organisations from long term planning, as well as harming financial sustainability and predictability for lenders, and requiring the frequent and resource intensive process of chasing small funding pots at the expense of focusing capacity on service delivery. Ultimately this is hampering the Scottish Government's ability to address its core priorities."

The Scottish Property Federation states that the framework is clear in it's high level priorities that drive its policy proposals but "less clear in its description of the relationship with UK budget processes and influence."

> "It is also clear that the allocation and delivery of Scottish Government resource spending is subject to a very fragmented collection of initiatives and agencies of government in Scotland itself."

What should be the overarching priorities in the resource spending review and how adequately are these currently covered in the framework?

David Heald argues that the priorities of the Resource Spending Review 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

He also argues that the Scottish Government should take steps to build up "contingency reserves" for the later years of the Spending Review period. He states:

> "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."

COSLA notes that the priorities in the framework document are "in line with some of COSLA's priorities" but that

> "there is notably very little comment in the consultation on the data and drivers behind these three priorities which makes it challenging to understand from the consultation document how exactly the evidence on these issues will be factored in."

The submission from the ALLIANCE states that although human rights and equalities principles are mentioned throughout the Spending Review framework document, "further steps could be taken to explicitly embed human rights and equalities as an overarching priority." The submission states:

> "A human rights based approach recognises that economic decisions have different impacts on different population group; something that is not always recognised in government budgets. This is outlined in a briefing from the Human Rights Budget Work Steering Group:
>
> > "[t]he contributions that households, individuals (especially women) and communities make to the economy — by caring for people for example — are not always recognised because they are not bought and sold through the market. For this reason, it is not uncommon for budgets to reinforce systematic inequalities between groups — in particular between men and women — and miss out on opportunities to use public financing to improve the position of disadvantaged and marginalised groups."
>
> Additionally, a human rights based approach supports prioritisation. Human rights provide a common language and unifying philosophy to help identify and address different priorities in a cross-sectoral and joined up way. By embedding a human rights framework and tools within economic decision making, it is possible to balance competing rights, interests, and risks to support difficult and complex decisions, and ensure judgements about value for money and efficient use of resources are made on a fair, equal, and transparent basis, free from discrimination."

Universities Scotland argue that the priorities identified in the framework represent only a subset of the priorities the government needs to address to achieve inclusive economic growth. They also make the point that it is less clear on what basis, or through what process, the priorities are being defined, beyond their high-level articulation, and therefore applied to funding decisions.

> "It appears that definitions have been drawn very narrowly so far, to the exclusion of many other sectors capable, if not integral, to the realisation of these priorities. We believe higher education has a role to play in contributing to the achievement of all three stated priorities, but one that is not perhaps recognised with the parameters as currently drawn…
>
> As a further example, in relation to the priority of child poverty, there are related and pre-existing Scottish Government flagship societal priorities which are now left in doubt following the new Framework. To name just one, the First Minister's "national mission" of widening access to university, which is consistent with addressing inequalities and achieving inclusive growth and was clearly defined in 2016, with numerical targets of 20% of entrants to

> university from SIMD20 areas by 2030, are generational in timeframe. Universities have applied themselves to this priority, meeting interim milestones in 2021, but still face the "hardest mile" ahead, in the words of the Commissioner for Fair Access, to hit the 2030 targets. Further action and additional investment (which has so far been lacking) will be necessary to achieve this.
>
> We are concerned that this will be de-prioritised because it addresses the life-chances of adults (17+) rather than children, though in practice universities' outreach and engagement with schools and pupils starts many years before the student reaches university.
>
> Moreover, opportunities for university education are a clear path to breaking generational cycles of poverty. The de-prioritisation of the university Teaching Grant, which has fallen in real terms by 13% between 2014-15 and 2021-22 and was cut further in the 2022-23 budget, would suggest that the Scottish Government's priority of addressing inequalities is being redrawn very narrowly, as the Teaching Grant is the main route through which universities deliver widening access activities and support for access students.
>
> It would appear to us to be preferable to judge investments against wider criteria to avoid inadvertently de-prioritising important investments."

Colleges Scotland "echo" the Finance and Public Administration Committees pre-budget report that the "overarching priority should be to take the opportunity available to move away from the pressures incurred by a one-year budget cycle, and to create the fiscal space for investment in long-term initiatives and measures."

They argue that given education will support all three of the overarching priorities set out in the framework, it should be incorporated as a fourth priority.

There is widespread support across public bodies in Scotland for multi-year settlements that the Spending Review will presumably provide. This is beneficial as it allows for medium term planning with a bit more certainty. For example, Colleges Scotland state:

> "The college sector is seeking sustainability with its core budget for the college sector, one that provides a streamlined and simplified approach to funding. This will allow clarity over levels of resource, reduce unnecessary bureaucracy so that resources are maximised for the learner at the frontline, increase the ability of the sector to plan effectively, as well as deal with the inherently unfair starting point for funding the different sectors across the education system. Sustainable funding on multi-year basis will maximise the role of colleges as civic anchors in committing to community initiatives, supporting city and region deals and regional and local economic activity."

Paths for All suggest 5 policy ideas for the Spending Review:

- Increase the resources for physical activity – "Transformation across Scotland's communities could be achieved by investing in an annual £50million infrastructure fund to develop and maintain local walking (and wheeling) routes, long distance routes, green neighbourhood networks and support under-pressure mountain locations. This fund would not only help meet Net Zero targets but would also support job creation and skills programme to maximise local economic benefits. Any increased capital budget must be followed with a proportionate increase in the maintenance budget."

- Mainstreaming physical activity – "We would like to see all public bodies produce and implement a physical activity strategy for their local area and their workforce. At a national level, the Scottish Government should also ensure that physical activity is built into its national strategic plans, such as the NPF4, STPR2, National Transport Strategy Delivery Plan, Infrastructure Investment Plan and the Climate Change Plan."

- A Physical Activity Commissioner – "A Physical Activity Commissioner would demonstrate a firm commitment to increasing physical activity. The role could be delivered by recasting and increasing the resourcing of the Active Nation Commissioner role."

- Mainstream walking in schools & development of a national Step Count Challenge platform for schools – "Schools have a vital role to play in creating good habits and addressing health issues at an early age…Secondary school pupils and staff are encouraged and supported to increase physical activity levels through school-wide step count challenges. Pilots have demonstrated that this is an effective and practical intervention that supports the whole school community to be more active. Many schools and pupils could be reached with a relatively small support resource."

- Social prescribing – "There is an urgent need to address the long-term effects of COVID-19 (so called long COVID) and recognise the longer-term benefits that physical activity can bring to patients. We support the work of Movement for Health Coalition and their call for the establishment of a formal, standardised, social prescribing programme that promotes physical activity as a core element of treatment. The benefits of social prescribing have been widely documented and there has been strong cross-party support for its roll out in the previous Parliament. This is a good example of preventative spend We would be delighted to provide further details behind any of these ideas."

The SCVO, like other bodies responding, says that multi-year funding should be the overarching priority of the spending review.

> "The establishment of multi-year funding across the board for the voluntary sector must be an overarching priority. The framework does identify the intention to publish multi-year spending plans in May 2022, but does not specifically identify this as applying to the voluntary sector."

The Scottish Women's Budget Group agrees with the three priorities set out in the framework document, but believes that "there is an omission with the lack of mention of care within the priorities."

> "We believe it clearly links to the existing priorities but it needs to be explicitly set out in the resource spending review as part of a process of realigning our economy to a wellbeing economy that tackles inequalities.
>
> Care is the backbone of society. Yet, because it is overwhelmingly carried out by women, it is undervalued and has suffered from chronic underinvestment. This lack of investment must be recognised as both a cause and consequence of an unequal society. The women who are working in the care economy have been underpaid and under-protected, and marginalised women, including poor and migrant women are over-represented in this low-paid work. Adequately investing in care is critical to tackling gender, income and ethnic inequalities."

The Scottish Women's Budget Group are also unhappy about the lack of reference to gender throughout the documents "despite the focus on public services and the gendered impact of public service delivery."

> "For this reason it is vital that the process of gender budget analysis is used throughout the planning process and within the impact assessment processes that will take place through the process, as highlighted in chapter 3 of the Resource Spending Review Framework. Within this process all committees should ensure gender impact assessments are undertaken with transparency of this information.
>
> There is a risk that transitioning to a green economy could entrench or exacerbate existing inequalities if policy interventions are not made to challenge existing structural problems. For example, there is a risk that the unprecedented investment in decarbonising economic activities will widen labour market gender inequality if a gendered analysis is not built into the planning process. Within the resource spending review an equalities lens must be applied to climate policy to ensure it does not reverse progress on gender equality in high-value sectors while also committing new investment to traditionally feminised 'green' sectors such as care. Transition investment offers an opportunity to thus secure a greener more equal economy."

The Scottish Property Federation argue that recovery from the pandemic should be the overarching priority of the Spending review

> "we place economic recovery as an overarching priority for the resource spending review and we believe resources should be directed towards areas of government dedicated to supporting economic development.
>
> Our second overarching priority is to begin to tackle the enormous challenge of decarbonising our built environment and wider economy, while providing a just transition to a net zero carbon emissions economy. 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."

Does the framework properly reflect the current economic and political context?

Inflation has been big news of late and its impact is reflected in some of the submissions received. The Child Poverty Action Group states that the framework is right to highlight the impact that rising inflation may have in the coming years on the public purse.

> "More could be done to draw out the impact that these same inflationary pressures will have on costs for low income families. The Resolution Foundation have outlined how the combined impact of inflation, rising energy bills and the £20 cut to universal credit will impact families across the UK. The Foundation predicts that families will be on average £23 a week worse off this winter and spring, with high inflation rates undermining the possibility of a real terms wage increase.
>
> The framework should recognise that the cost of living crisis is felt disproportionately by those on the lowest incomes. Energy and utility bills place a disproportionately high burden on low income households' resources. Any rise in the cost of living will mean a disproportionate impact on low income families in Scotland with implications for the resource allocation required to meet child poverty targets."

The submission from the ALLIANCE states that the framework sets out clearly the coinciding impact of COVID-19, withdrawal from the European Union, climate change and austerity. However, "the ALLIANCE would also highlight the significant pressures faced by certain population groups and third sector organisations across Scotland."

They argue that the pandemic has exacerbated pre-existing issues for third sector health and social care organisations, while creating additional pressures.

> "The social care workforce in Scotland continues to be marginalised and undervalued, and there are ongoing, long term issues with workforce recruitment, retention, training, and quality in social care. Throughout the pandemic, loss of income and increased demand for services has significantly impacted organisations' ability to plan and deliver future services. Finding from Scotland's Third Sector Tracker highlight that almost half (48%) of all organisations surveyed saw a decrease in turnover compared with pre-pandemic levels. At the same time, costs have increased in responding to the pandemic, including workforce related costs, such as additional staff wellbeing support and cover for sickness absence…
>
> The longer term survival of third sector health and social care organisations is at stake, and the crucial services and support they deliver remain just as vital as we continue through COVID-19 recovery into the post-pandemic period; sustainable, ongoing and protected funding and support should reflect that to ensure that essential services continue to reach people and keep staff in secure employment."

COSLA argues that the “framework fails to recognise the long-term pressures which have been faced by the public sector over the past decades due to reduced resources and increased demands.”

> “Critically the framework does not acknowledge the increased amount of policy commitments, many of them for universal provision, that Local Government have been required to deliver which, given the poor settlement received by Local Government year on year means that there is no additional funding for inflation or pay for the staff who deliver these. Ultimately this affects the sustainability of Local Government having significant impact on recruitment and the retention of our workforce as the sector is continuously undervalued.
>
> The inability to invest progressively in our current workforce and attract new talent ultimately has a negative impact on our communities and the essential services we deliver.
>
> The lack of investment further disregards our role as often the largest employers in our areas and the lead we take as Fair Work employers. Our employees both deliver services but are also members of our community and rely on the services we deliver. The framework refers to the National Care Service numerous times which is challenging given that the consultation analysis has not been published and there is no clarity on what a National Care Service will look like or deliver. This has and continues to create great uncertainty for our workforce and the cost implications and impact on current employment terms and conditions has not been considered. The framework also fails to recognise the impact of structural change on current services and the resource implications of establishing new structures rather than investing and improving current structures that would enable Councils to attract new talent and develop those in post.”

The Chartered Institute of Housing submission states that the following additional factors should be included:

- New population projections published on 12 January 2022 showing expected population decrease from 2028 and further ageing population which will likely further increase pressures on health and social care.

- The impact of Brexit on the cost of and access to goods and labour.

- The longer term impact of the pandemic on working patterns, how this may affect local economies, communities and the way that we live and work. How will this impact the location, type and specification for new homes being built in the future?

- Greater reliance on digital connectivity to support people working from home, reduce social isolation by keeping people connected and as part of the solution to supporting people to live well in their own home for as long as possible.

The Scottish Property Federation does not believe the framework properly reflects the current economic and political context:

> "We do not believe the framework fully accounts for lower Scottish Income Tax revenues, partly because of relatively fewer people being in employment, or of the lack of economic growth supporting buoyancy in non-domestic rates income…
>
> For example, the Scottish Budget proposed on 9 December does identify future revenue expectations from NDR and estimates a significant increase in these rates without specifying how this increase in revenue is to be realised. In 2022-23 a NDR pool of £2.8bn is expected. From 1 April this jumps to £3.2bn and remains close to this level for the period of the three year revaluation period. In 2026 following the next revaluation, NDR revenue is expected to grow again to £3.5bn. This implies an expectation of rateable valuation uplifts for commercial properties which may not materialise as the economy adapts to the post-Covid era, particularly if there is a reduction in the number of NDR producing commercial properties as buildings are changed to alternative uses."

The Scottish Property Federation believe there is a risk that tax receipts will not bounce back as expected. They believe there is a risk a significant shortfall in revenues and "there may be two further factors that will enhance this risk."

> First there is the well documented change in consumer behaviour and the nature of our major high streets and retail centres. On paper, retail still accounts for nearly a quarter of rateable value. The reality is that this was changing before the 2017 revaluation and the pandemic has accelerated the change in appetite for retail bricks and mortar locations. With the growth of online retail, it is unlikely that the retail sector will support a similar scale of contribution to non-domestic rates distributable income.
>
> Neither is it apparent that the framework supports an effective recovery or renewal of our towns and city centres. There is also a change in demand for support. Areas with formerly strong economic performance have experienced a sudden and dramatic loss of footfall and economic activity that may not be entirely repaired. For example, central Edinburgh locations are estimated to have seen a fall in economic activity of 45% whereas outlying towns have in some cases not seen a reduction in activity, or even a slight increase over the period. Bathgate for example experienced a 4.3% increase over the pandemic.
>
> The loss of economic productivity and tax revenue associated with these falls in activity in our most economically important city centres should be a key concern for the government's revenue expectations. The previously robust areas of Glasgow and Edinburgh have been hobbled by the pandemic and may take some time to recover. While some of the previously weaker performing areas may well have done better relatively speaking, their success is unlikely to make up for the loss of economic activity in the core cities."

The College Scotland response, whilst acknowledging the economic and political context of the moment, is not happy with how that is being translated into settlements for education.

> At present, further and higher education funding appears to be one of the "hard choices" rather than one of the three "priorities" as described by the Finance Secretary, which are carried through from the 2022-23 budget document into the Scottish Government's published consultation exercise on the Resource Spending Review.
>
> The role that colleges continue to play in Scotland's recovery from COVID-19 cannot be overstated, providing individuals not just with education, qualifications, and training but also with a high level of holistic support – making up for lost learning, providing a scaffold of mental health and wellbeing support, and giving students access to financial support."

Universities Scotland states that the framework sets out some of the socio-economic challenges for Scotland but does not set out ambitions to address them. For example, they state that

> "if the relative decline of the working-age population in Scotland is a problem, as identified in the framework, shouldn't the Scottish Government set a priority of making Scotland more competitive in attracting a working-age population from outside our borders, and stimulating robust economic growth to create jobs that attract them? As magnets of student talent from the rest-of-UK and internationally, universities would be delighted to see more students choose to stay and make their careers in Scotland.
>
> The framework doesn't set out ambitions to make investments that will address the political and economic challenges by enabling growth that increases people's taxable earnings."

The SCVO reminds the Committee of the financial strain facing the voluntary sector:

> "Voluntary organisations are under acute financial strain due to rising energy costs, inflationary pressures and the withdrawal of emergency funding. This, combined with the challenges outlined for question one around insecure funding, lack of timely payments and omissions of core costs and inflationary uplifts, mean that many voluntary organisations are facing imminent financial peril.
>
> The proposed £800,000 cut to the voluntary sector budget outlined in the draft Scottish Government budget 2022-23 will only further intensify this acutely challenging financial situation. If the Scottish Government is truly to address its three core priorities, then it must not only recognise the contribution of voluntary organisations to the economy, but also ensure there is an economically sound operating environment for the sector to flourish in."

David Heald argues that the aftermath of Brexit is blurring this distinction between expenditure that is reserved and devolved "with the UK Government wishing to spend on public services which are functionally devolved." He argues that

> “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.

He sees the Spending Review as 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.”

Bòrd na Gàidhlig state that the document should place greater emphasis on factors around the pandemic having a geographical dimension.

> “The impacts of the pandemic on islands and other parts of the Highlands and Islands have been set out in a number of reports and other documents. These have pointed to the
>
> - General economic fragility of many islands and remote areas.
> - Relatively high share of businesses in sectors disproportionately affected by the pandemic - which have been significant employers. For example in tourism, the arts and entertainment.
> - Relatively high levels of self-employment, where Government support has been lower than for companies and their employees.
> - Greater dependence on employment in micro/small enterprises. They have fewer financial and other resources to cope with a downturn in demand.
>
> These factors will have led to more significant pandemic impacts in the islands and more remote mainland areas. They are likely to take longer to recover than other parts of Scotland.”

How does the framework approach cross-cutting issues, long-term challenges such as demographic trends, and preventative approaches?

The ALLIANCE point out that the framework document points to the application of "criteria" in support of activity to achieve the core priorities, along with "further pragmatic criteria to be deployed in the analysis of spending plans". However, they go on to state that

> "the criteria is not listed in the consultation document. In the interests of accountability and transparency, we recommend that the criteria is made publicly available and informed by key human rights principles to ensure an equitable and inclusive process. Additionally, analysis of spending plans should be intersectional to assess the impact of financial decision making on the rights of marginalised population groups."

The Chartered Institute of Housing state that:

> "While we agree with the overall aims of the National Care Service (NCS) – improving access to services and outcomes for individuals, we have concerns about the lack of consideration given to the role of housing within the draft proposals.
>
> The document references the Christie commission, focus on prevention and the need for cross-Government collaboration…housing is an excellent example of how investment in one area can have positive impact in others. We strongly agree that there is a need for the benefits of good quality homes and services to be recognised across different portfolios including health and social care and community justice."

The Child Poverty Action Group states that the framework "should more fully recognise and articulate the value of investing in reducing child poverty as preventative spend" citing research that a very large investment in an effective anti-child poverty strategy is "likely to pay for itself many times over."

The Child Poverty Action Group contend that the Scottish government's priorities for this preventative spend should focus on childcare, housing, employment, Education and free school meals.

COSLA's submission claims that the framework makes reference to cross-cutting and preventative approaches, however what is needed is a "genuine focus on preventative approaches in particular, in line with the Christie Commission recommendations (the implications being that the SG has not had a genuine focus on prevention).

COSLA claim that Local Government's ability to undertake prevention has been limited by core budget pressures.

> "These core budgets are where the spending on prevention takes place, for example local nurture programmes, ESOL, leisure, cultural venues and

services all of these contribute to health, wellbeing and attainment. With ever 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.

> The Spending Review should recognise that health and wellbeing are interrelated and that investment is needed in the whole system – that improving these outcomes depend on the building blocks being in place, these are housing, education, employment to name a few, without these or with poor versions of these, people live shorter lives."

The Scottish Property Federation point to the framework providing strong evidence of the increase in costs to be expected in terms of an aging population, and the consequence of a lower tax base with a lower proportion of the population in work.

Their submission, however, notes that the "costs to be associated with these trends are possibly greater than those considered by the framework."

> "Higher costs of living will add to already tight labour market costs to put upwards pressure on public sector wages, which will add to resource pressures. Construction related costs for materials are also increasing at an extremely high rate of 23% according to a report by the Construction Products Association in November 2021. This will inflate the cost of supporting additional healthcare facilities and other key social infrastructure required to address these growing demographic needs."

The Scottish Property Federation also believe that the framework does not address an ever-growing resource 'timebomb' in the form of huge annual increases in revenue support for public pension obligations.

> "This is not a new challenge and has clearly been an issue for some time – but it will only grow as a burden on the annual revenue resource. The Scottish Budget for 2021-22 identified an expected budget increase from £5.88bn in 2021-22 to £6.5bn in 2022-23 for the Scottish Public Pensions Agency (SPPA). This will be of no surprise to the SPPA who have seen an increase of 13% in the number of active pensions joining their pension schemes, and a 29% increase in the number of people within their schemes, over the past four years alone.
>
> In total, the SPPA now covers 569,000 active, deferred or people drawing their pensions in Scotland. It is hard to see how these major cost obligations will continue to be met and at the same time meet all other spending plans and intentions, with an economy that is demonstrating little economic growth…
>
> The government needs to consider how it meets its growing public sector pension obligations before they become too great a burden on annual resource allocations. The government could consider the example of local government, where local authorities have established professionally managed pension funds that support their employee obligations, through putting

> pension contributions to beneficial use and earning returns that support the fund and public pension holders in the long term. This is not a comment on the terms and conditions of public pensions - we would not wish to do so – and we would expect the government to meet its obligations. Yet it is clear from the annual Scottish Budget papers that the increase in demand on resource spending year on year, is only likely to lead to even more difficulty for the Scottish budget to meet its objectives in the years ahead. The government needs to find a better way to support future public pension obligations."

David Heald points to the scenario modelling in the framework document which "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, the projections of resource funding demographic change "is a matter of intelligent guesswork". Given this:

> "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.
>
> It has long been known, for example from the annual *Public Expenditure: Statistical Analyses* that per-capita public spending is higher in the devolved nations than in England. Unsurprisingly therefore, Figure 2 [in framework document] 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)."

Bòrd na Gàidhlig argues that the framework should acknowledge the geographical dimension of changing demographics in Scotland. The submission notes that changing demographics have affected many islands and remote parts of Scotland for a considerable length of time, and to a greater degree than elsewhere in Scotland. That includes communities where Gaelic has remained relatively strong.

> "These communities are already very aware that, as the consultative framework document notes, "A decline in the working age population slows economic growth" and "Poor health and complex care needs are more present in an older population". It is estimated that while Scotland's working age population was virtually unchanged between 2011 and 2020, in the Outer Hebrides it fell by approaching 10% in the same period.
>
> This has implications for island communities' sustainability and in the case of the Outer Hebrides in particular the future sustainability of Gaelic language and culture in what is considered a Gaelic heartland."

How well do the priorities in the framework link in with National Performance Framework outcomes?

COSLA argues that “the focus of longer-term financial planning needs to be outcome driven not based on inputs.”

> “The priorities in the framework are not clearly set out to demonstrate linkages with the National Performance Framework. There has been far too much focus on where the money went and not enough on what we achieved…
>
> There needs to be an improved mechanism for assessing how we are reaching the National Performance Framework goals. This should be integral to Spending Review – not just setting out some high-level numbers which are limited in their usefulness. There should be greater clarity and transparency about how budgets are contributing to the National Performance, any priorities set by a Spending Review and how these interlink.”

The Child Poverty Action Group state that

> “by prioritising action to meet Scotland’s child poverty targets the framework links well with the outcomes of the National Performance Framework. The outcomes recognise that “Scotland is a wealthy country and we have the resources, ability and commitment to provide a decent life for all our people.”
>
> By focussing on meeting the child poverty targets, the framework for the resource spending review acknowledges that Scotland can provide a decent life for all its people. Child poverty is a barrier to young people growing up safe and realising their full potential. By making ending child poverty a priority in the Resource Spending Review and taking action to meet the targets, the government can create inclusive, empowered, resilient and safe communities.

The Scottish Property Federation state there is little information that would explain how resource revenue spending will support the achievement of these outcomes.

> “We are also concerned that the revenue allocations to business support appear to be insufficient at a time of clear need for business recovery. In 2019 the Scottish Parliament approved a major series of reforms to the planning system. This new legislation applies a considerable number of requirements and obligations on local planning authorities. These measures will need to be funded by local government, yet it is not clear if any additional funding to deliver these additional planning system requirements has been made in the framework. With local government resource budgets themselves tightly squeezed, we fear the planning reform envisaged by Parliament will be difficult to achieve. The planning system must be able to facilitate and enable development (and redevelopment) if the National Performance Framework outcomes for new sustainable homes and business locations are to be realised. Our members have consistently stated they would be prepared to pay higher planning fees to support additional resources for the planning authorities, but there must an improvement in performance as well.”

The submission by Colleges Scotland states that:

> "sustained funding of the college sector… would go a significant way towards delivering the attainment of the National Performance Framework outcomes in practice: giving opportunities to all people living in Scotland, increasing the wellbeing of people living in Scotland, supporting the creation of sustainable and inclusive growth whilst reducing inequalities and giving equal importance to economic, environmental and social progress."

Universities Scotland previously mapped the higher education sector's contribution against the National Performance Framework, and found that higher education had a role to play in nine of the eleven national outcomes, from economy and education to culture, international and business. In total, there is a quantifiable university contribution to 29 of the 81 national indicators.

Universities Scotland's submission states the priorities in the framework

> "appear to be a much narrower subset and redefinition of parts of the National Performance Framework – giving rise to the concerns expressed above about de-prioritisation of important areas of public life.
>
> It can be challenging for Scotland's sectors and public/private/third sector organisation at any one time to work out what is the accurate definition of the Scottish Government's priorities since these are set out differently e.g. in the National Performance Framework, Programme for Government, Resource Spending Review Framework, and (potentially) the impending Economic Transformation Strategy."

David Heald makes the point that "the stated priorities for RSR 2022 are higher level than the 81 indicators of the National Performance framework."

> "As of 19 January 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."

Other specific recommendations

Not surprisingly, submissions from the various sectoral groups focused primarily or exclusively on the particular challenges facing them.

For example, the Scottish Retail Consortium (SRC) submission focuses on the dramatic shift in trading condition faced by the sector in light of the emergence of the new omicron COVID variant prior to Christmas. This had the effect of drastically reducing levels of footfall in the retail sector sector in what would normally be the busiest and most lucrative part of the year.

To assist the sector, the SRC recommend the following action:

- Scrap the cap on the business rates relief for retail and hospitality for the coming financial year and extend the period that it applies for.

- Ensure retailers with restaurants who have suffered a loss of festive bookings over the past two weeks due to public health messaging are entitled to apply for grant funding.

- Pause plans to allow councils to introduce workplace parking levies from April.

- Consider a consumer stimulus for the new year such as high street voucher scheme or temporary free or discounted parking or public transport.

Colleges Scotland cites the 2022-23 real terms reduction in college funding which it says “adds to the pattern of reducing investment over many years to the funding required to pay for the day-to-day operations of colleges.”

> “As highlighted by Audit Scotland in its Scotland’s Colleges 2020 report the deficit gap between colleges' total income and expenditure has grown to £54 million. This is forecast to continue because of costs outwith the sector's immediate control, such as pensions and depreciation of assets. Robust long-term financial planning by colleges will be critical to achieving financial sustainability and auditors have highlighted a significant number of colleges that need increased funding, cost cutting - or both – to deliver balanced budgets in the future.”

The Chartered Institute of Housing submission states that the Scottish Government must ensure that local authorities have the resources to be able to support the delivery of homes to meet different housing needs – affordable homes for people on low incomes, accessible homes to suit people’s changing needs over time, good quality homes in the private rented sector and a range of options for home ownership.

The Child Poverty Action Group calls for a couple of actions in Social Security policy:

> “Although the Scottish budget for the upcoming year includes the doubling of the Scottish child payment it does not provide resources for the doubling of bridging payments. These payments are made to families with children over 5 in receipt of free school meals. This is a small subset of those that will be eligible for Scottish child payment on full roll out. The payment was originally designed to provide equivalent support to the Scottish child payment in the interim period before full rollout for children up to 16 had taken place. Government should provide resources to double the bridging payment from April 2022. Alongside this, Scottish government should ensure that plans are in place so that, regardless of data sharing arrangements with DWP, all children eligible for the Scottish child payment will be receiving £20 a week by the end of 2022, if not sooner.”

They also call for mitigation measures around UK policy, stating that:

> “The spending review should make resources available to provide additional support for families for whom UK social security is inadequate to protect from

poverty. Sufficient funds must be made available to local authorities to fully mitigate the UK social security benefit cap, as has been done in relation to the 'bedroom tax', and the government should consider how the two child limit could be mitigated."

Annex: Responses received

Responses were received from:

- The Scottish Retail Consortium
- Health and Social Care Alliance Scotland (the ALLIANCE)
- Colleges Scotland
- Chartered Institute of Housing
- Child Poverty Action Group
- Children in Scotland
- Paths for All
- Scottish Council for Voluntary Organisations
- Scottish Women's Budget Group
- The Convention of Scottish Local Authorities (COSLA)
- The Scottish Property Federation
- Universities Scotland
- Professor David Heald
- Bòrd na Gàidhlig

Ross Burnside, Senior Researcher, SPICe Research

February 2022