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Investing in Scotland's Future: Resource Spending Review Framework

Dear Kenny,

As the Committee will have noted, the Scottish Government published 'Investing in Scotland's Future: Resource Spending Review' yesterday. As part of the spending review, we also published a Resource Spending Review: Equality and Fairer Scotland statement and the Resource Spending Review Framework: Analysis of consultation responses. The documents can be found on the Scottish Government website at the following link:

[Resource Spending Review 2022 - gov.scot \(www.gov.scot\)](https://www.gov.scot/resources/consultations-petitions/Resource-Spending-Review-2022/)

As you will also be aware, we also published [The Outcome of the Targeted Review of the Capital Spending Review – Updated Spending Allocations for 2023-24 to 2025-26](#), and our [Medium-Term Financial Strategy 2022](#).

I would like to thank the Committee again for their detailed response to the Resource Spending Review Framework consultation, and I am grateful for your continued engagement on the Resource Spending Review. I said that I would write to the Committee with a response to the points raised in your report.

The Committee raised a number of points on the priorities for the Resource Spending Review, the economic and political context, cross-cutting issues and preventative approaches, and links with the National Performance Framework outcomes. We have carefully considered these and I set out below our response.

The Resource Spending Review establishes the broad parameters within which the Scottish Government will operate over the rest of this parliament to 2026-27. It provides an overarching financial framework to support our focus on our key priorities of tackling child poverty, addressing the climate crisis, securing a stronger, fairer, greener economy, and delivering excellent public services. We must also focus on the cost of living crisis, prioritising additional funds to help households in need. As I set out in my statement to Parliament, the Resource Spending Review was conducted at a time when the economic and fiscal context is volatile and funding is constrained. I am clear, however, that it is important to provide as much certainty as possible to our delivery partners. The challenging outlook and the need to shift resources to our priorities mean it's necessary to begin, in collaboration and through discussion, a journey of reform and efficiency to meet the most pressing issues facing Scotland over the medium-term.

With that in mind, I look forward to attending Committee on the 7 June to discuss the Resource Spending Review and accompanying publications, in more detail. We also look forward to our continued engagement with you as we look ahead to the detailed work upcoming on the Programme for Government and the 2023-24 budget.

Yours sincerely,

KATE FORBES

Response to ‘Investing in Scotland’s Future: Resource Spending Review Framework’, Finance and Public Administration Committee report, 25 March 2022.

Section and page	Comment	Response
<p>Priorities for the Resource Spending Review, p3</p>	<p>The Committee notes that the high-level priorities identified for the Resource Spending Review are broadly accepted by most of the witnesses we heard from. However, we ask that consideration is given to whether Covid recovery should feature more prominently in this Spending Review, given the lasting effects on our society and the economy, and the need for urgent action as identified in the Scottish Government’s Covid Recovery Strategy.</p>	<p>I am pleased to hear that most Committee witnesses supported the priorities identified.</p> <p>The Spending Review has been undertaken at a time when we are absolutely still recovering from the Coronavirus pandemic. Covid has not gone away and there is still acute pressure on the NHS, on business and the wider economy.</p> <p>The Spending Review seeks to balance the need to shift resources so we achieve greatest impact for our economy, environment and wellbeing, with the need to continue improving public services, as we build back from Covid-19. We do this within a challenging economic and financial outlook for Scotland and while experiencing an unprecedented cost of living crisis. We must do all we can within our current powers to prioritise funds to help households in need.</p> <p>Our ‘Covid Recovery Strategy’, published on 5 October 2021, set out an ambitious vision and plan for Scotland’s recovery from the pandemic that is focused on bringing about a fairer future, particularly for those most affected during the pandemic. The financial parameters set out in the spending review support the delivery of this strategy.</p>
<p>Priorities for the Resource Spending Review, p3</p>	<p>The Committee has previously recommended that the Scottish Government sets out how it plans to manage the economy to meet its net zero commitments by 2045. While we accept that meeting climate change targets and securing a stronger, greener, fairer economy are prominent priorities in the Framework, there appears to be little detail to show</p>	<p>As the Committee notes, addressing the climate crisis was identified in the Framework as a priority for the spending review.</p> <p>The spending review provides an overarching strategic financial framework to support achieving our priorities. As I set out in the</p>

	<p>that the plans we asked for are in place. We therefore seek reassurances that the Spending Review will provide this missing detail.</p>	<p>review, it is not a budget, and detailed planning will continue to take place as part of the annual budget process.</p> <p>In relation to addressing the climate crisis, the funding envelopes set out in the spending review, along with the targeted refresh of the capital spending review, support our updated Climate Change Plan, which sets out a comprehensive, detailed and ambitious policy package, alongside our Climate Change Adaptation Programme.</p> <p>The spending review and targeted refresh of the capital spending review has prioritised delivery across the climate change agenda. The investment required to address the climate crisis is weighted towards capital funding. The targeted review of capital spending supports critical low carbon capital spending, with an increase of over half a billion pounds directed towards net zero programmes to address the climate crisis over the next three years.</p> <p>The spending review also sets out key commitments we will fund through the spending review, such as:</p> <ul style="list-style-type: none"> • Increasing resource spend to deliver of our Heat in Building strategy by up to £75 million per year, directly supporting £1.8 billion of overall public investment (including capital) to decarbonise over a million homes and 50,000 non-domestic buildings by 2030. • Providing £95 million of further investment to scale up activity to meet our annual target of 18,000 hectares of woodland creation by 2024-25. • increasing active travel spending to a combined resource and capital total of £320 million a year over the period. <p>I welcome the Committee’s forthcoming work to examine this area in more detail as part of its work on financing the net zero targets.</p>
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<p>Priorities for the Resource Spending Review, p3</p>	<p>While we also accept that the purpose of the Framework document is to encourage broad views on spending priorities, we seek assurances that the Spending Review will include robust data, evidence and analysis to support the Scottish Government's spending decisions. This is vital in ensuring transparency and scrutiny, including of how the government has prioritised and identified potential savings options associated with existing expenditure, as anticipated by the Budget Process Review Group.</p>	<p>I agree with the Committee's view that robust evidence and analysis is critical to how we make spending decisions. We need to continue to ensure public finances are sustainable and this means maintaining a sound basis for making decisions.</p> <p>The Resource Spending Review process, combined with the development of the 2022 Medium-Term Financial Strategy incorporated a number of elements that together informed the decisions announced on 31 May. The Spending Review sets out the range of priority interventions that have been identified as supporting key objectives around child poverty, net zero, economic recovery and strong public services. It is also closely aligned with strategies such as the Tackling Child Poverty Delivery Plan, the National Strategy for Economic Transformation, the Climate Change Plan and the Covid Recovery Strategy, each of which is underpinned by evidence and analysis. Information about some of the impacts of the spending review are also set out in the associated Equalities and Fairer Scotland Statement.</p> <p>As the Resource Spending Review sets out, we will now take forward further work within the high-level funding parameters set out, in consultation with the Scottish Government's delivery partners. Outputs from this engagement will inform the 2023-24 Budget process and future budgets.</p> <p>It is important to note that the Resource Spending Review is not a one-off publication. As I set out, detailed planning will continue to take place, internally and with partners, as part of the annual budget process. We will use the outputs from the RSR process to continue improving our public finance processes, such as how we monitor and evaluate outcomes from spending decisions and feed</p>
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		<p>this into decision making, and increasing transparency through our Open Government work.</p>
<p>Priorities for the Resource Spending Review, p4</p>	<p>Consideration should be given in future spending review years to whether more time is needed to gather this important data and analysis, which informs effective decision-making and measurement of outcomes. We would also welcome further details as to how the Scottish Government intends to measure success against the core priorities identified for this Spending Review.</p>	<p>I welcome the Committee’s comments. Scottish Government officials will review the spending review process and build on the lessons learned from that review in future public finance processes.</p> <p>As I set out previously, the plans set out in the spending review are at a high-level and require consultation with our partners to take forward.</p> <p>Progress against our core priorities will be measured as set out in the relevant strategies and delivery plans, for example:</p> <p>In March we published our second Tackling Child Poverty Delivery Plan, setting out how we will drive progress towards statutory targets, and published an updated monitoring and evaluation framework. Annual progress reports are laid before Parliament by end June each year, with the next report due by June 2022.</p> <p>Annual progress monitoring reports for both the Climate Change Plan update and the Climate Change Adaptation Programme are laid before Parliament in Spring each year, with the latest reports being issued on May 26, 2022.</p> <p>The National Strategy for Economic Transformation published in March 2022 commits to introduce a common accountability framework with delivery partners with senior named leaders both inside and outside the Scottish Government responsible for delivering specific programmes, including establishing key milestones and agreeing metrics of success.</p>

<p>Priorities for the Resource Spending Review, p4</p>	<p>The Committee further believes that a spending review provides an opportunity for reflection on how effectively funds have been spent in previous years, and we therefore ask that the Spending Review is informed by these reflections.</p>	<p>I agree that is important for spending review and budget processes to include reflection on current policies and programmes. This is especially the case at a time when there is volatility in the fiscal outlook and high inflation makes it essential to deliver value for money in public spending. This was reflected in the parameters set out in the spending review and the prioritisation attached to spending which evidence suggests has the greater impact, for example the impact of the Scottish Child Payment on our statutory child poverty targets.</p>
<p>Economic and political context, p5</p>	<p>The Committee believes that more detail on the full economic and political situation within which the Spending Review is being undertaken would have been helpful in providing more context and transparency to the actions being considered. This is particularly important in times of significant pressure on public finances where difficult decisions and re-prioritisation of spending choices may be required to ensure that public finances in Scotland remain on a stable footing.</p>	<p>Alongside the Framework published in December, we published a Medium-Term Financial Strategy (MTFS) providing the economic and fiscal context for the Resource Spending Review, including the fiscal challenges lie ahead. An updated Medium-Term Financial Strategy was published alongside the Resource Spending Review which itself includes further analysis of these areas.</p> <p>This year's MTFS highlights the severe impact of rising inflation and cost of living crisis on the fiscal and economic outlook, how it has increased budgetary pressures, and consequently put pressure on the delivery of public services.</p> <p>In terms of the political context, in my statement to Parliament I made mention of the impact of the limits in the Scottish Government's current powers – which are significant and structural.</p>
<p>Economic and political context, p6</p>	<p>Our recent budget scrutiny highlighted demographic challenges and the trends behind the deteriorating income tax receipts forecast by the Scottish Fiscal Commission in December 2021. We plan to return to this issue of how to grow the tax base as part of our pre-budget scrutiny starting in May and will report to the Scottish Government on this</p>	<p>The Resource Spending Review is underpinned by forecasts of the economy and devolved taxes from the Scottish Fiscal Commission. Regarding the point on demographic trends, it may be useful for the committee to note that the majority of the forecast GDP and employment growth gap is being driven by demographic trends. The SFC forecast that low levels of net migration to Scotland will</p>

	<p>matter later in the year. In the meantime, we believe that these important issues should be reflected within the context of this Spending Review.</p>	<p>contribute towards a shrinking working age population. This in turn has an impact on average economic activity rates in Scotland as the share of the population whom are of working age falls.</p> <p>These two factors, the falling working age population and the impact this has on participation rates, explains the majority of the gap in the GDP and employment forecasts by the SFC for Scotland and the OBR forecasts for the UK. Key levers to address these issues, such as migration policy remain reserved to the UK Government.</p> <p>In the absence of these powers to address underlying drivers of income tax performance, we have taken action to ensure Scotland remains the most fairly taxed place in the UK. Our decisions on taxation have created a fairer and more progressive tax system in Scotland – protecting lower and middle income earners, while raising extra revenue to invest in public services and Scotland’s economy. However, despite this progressive approach, as we have set out in the MTFs, and supported by recent analysis from the Scottish Fiscal Commission and the Institute for Fiscal Studies, rising inequality in England with rapid earnings growth in the financial sector in London, also presents a key risk to our budget. There is a clear and pressing need for increased fiscal flexibilities to be considered as part of the review of the Fiscal Framework to let us properly respond to any Scottish-specific risks to income tax revenues.</p>
<p>Economic and political context, p6</p>	<p>While not, in principle, against the idea presented by Professor Heald of a large reserve for contingencies, the Committee notes the Fiscal Framework’s limits placed on moving money into and taking money out of the Scotland Reserve. Taking into consideration some of the other evidence received, the Committee feels that the Scotland reserve is too small, it is inflexible and should, at the very least, keep pace with inflation. The Committee looks forward</p>	<p>I strongly agree with the Committee’s assessment of the limits placed on the Scotland Reserve by the existing fiscal framework, and on the need for more flexibility in the way the reserve operates.</p> <p>I also agree that this should be considered as part of the forthcoming review of the fiscal framework, alongside the other fiscal powers and budgetary levers available to Scotland.</p>

	to receiving more information from the Scottish Government about progress on the review of the Fiscal Framework and the associated upcoming independent report on the block grant adjustment arrangements, which provide an opportunity to look again at issues such as reserve limits.	I am due to meet with the Chief Secretary to the Treasury later this month, where I hope to make progress on agreeing the scope of the forthcoming review, as well as on arrangements for the independent report that will precede and inform the review.
Cross-cutting issues and preventive approaches, p8	In our recent report on the Scottish Budget 2022-23, the Committee welcomed the inclusion of 'changing demographics' as one of the three primary drivers of public spending within the Resource Spending Review Framework. We again note that this appears to provide scope for a renewed, more focused and sustained approach to policies aimed at reversing these demographic trends. We seek assurances that the Scottish Government will reflect this recommendation as part of the forthcoming Spending Review.	<p>The Resource Spending Review set out the high-level parameters for the Scottish Government's financial planning over the coming years.</p> <p>In the Framework, we outlined the forecast growth in the number of people over 65. This is a positive as people will contribute in many ways over their longer lifespan. However, there is also evidence that this could lead to an increased need for health and social care.</p> <p>The Resource Spending Review sets out one of the key ways in which we will address this challenge, by establishing the National Care Service bringing social care into parity of esteem with healthcare and transforming the provision of this essential service. This will be backed by increasing investment in social care by 25% over the lifetime of this parliament. This is the equivalent of over £840 million and will support measures to improve prevention and address one of the potential pressures of changing demographics.</p>
Cross-cutting issues and preventive approaches, p8	We also called for greater emphasis on prevention and public service reform. The Spending Review provides an opportunity for significant progress to be made in this area and we also ask that, where preventative measures are adopted, full explanation of their benefits is included to foster greater understanding amongst the public of these spending choices. We further seek clarification as to how policies are currently measured for preventative impact.	<p>The Resource Spending Review recognises the importance of prevention and public service reform.</p> <p>The Resource Spending Review also notes that the Christie Commission's legacy, with prevention one of its four pillars, is even more relevant now as we rebuild services from the COVID-19 pandemic and face new challenges such as the cost of living crisis</p>

		<p>This is supported by the high-level spending plans set out in the Resource Spending Review and key reforms noted over the life of the Parliament.</p> <p>Prevention is already baked into several of our existing high profile reform commitments such as: actions set out in the Covid Recovery Strategy and the work required to deliver on The Promise. We can already point to positive impact of prevention on some key programmes, including:</p> <ul style="list-style-type: none"> • Reformed Youth Justice services, built on a whole-system approach underpinned by GIRFEC, helping to contribute to an 85% reduction in the number of 12-17 year olds proceeded against in Scotland’s courts between 2008-09 and 2019-20. • Meeting the headline target of Developing the Young Workforce (Scotland’s preventative youth employment programme), to reduce youth unemployment in Scotland, excluding those in full-time education, by 40% by 2021, in 2017 – four years ahead of schedule.
<p>Cross-cutting issues and preventive approaches, p8</p>	<p>The Committee supports the Scottish Government's plans to publish multi-year spending plans which will provide much needed certainty to the public and voluntary sector and local government and achieve more efficient management of public finances across Scotland.</p>	<p>I welcome the Committee’s support on this. As I set out in my statement to Parliament on the spending review, the spending review is not a budget, and changes to the fiscal position are inevitable. However, I feel it is essential to share high-level financial parameters with public bodies, local government and the third sector, so we can plan ahead together. The Scottish Government is also committed to further engagement with local government about the fiscal arrangements that apply to local authority budgeting.</p>

<p>Cross-cutting issues and preventive approaches, p8</p>	<p>We believe that this multi-year model of funding will also allow more scope for longer-term preventative measures and cross-government collaboration to be adopted and we ask for reassurances that the Scottish Government will encourage this approach, including by sharing examples of good practice.</p>	<p>I share the Committee’s belief that multi-year funding parameters will help the Scottish Government and its partners collaborate and plan together. In the Resource Spending Review we set out a number of areas of key reform we wish to work with partners on, not least of which are:</p> <ul style="list-style-type: none"> -The establishment of the National Care Service, bringing social care into parity of esteem with healthcare and transforming this essential support. - We remain committed to Keeping the Promise, including by investing £500 million in preventative spend through the Whole Family Wellbeing Funding to help transform services that support families. - The Vision for Justice in Scotland – our transformative vision of the future justice system for Scotland, spanning the full journey of criminal, civil and administrative justice. Together with our justice partners, we are committed to this vision, with a recognition that work is required across the justice system, and government as a whole, to make this a reality. - Education Reform – establishing a new national agency for education, a new qualifications body and a new inspectorate to replace the Scottish Qualifications Authority and Education Scotland, in order to better support and promote improved outcomes and continuous improvement through co-design and co-creation with learners, families, practitioners and providers. - National Strategy for Economic Transformation (NSET) - five key priority programmes identified as having the greatest potential to deliver economic growth that significantly outperforms the last decade within the current constitutional arrangements.
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<p>Links with the National Performance Framework outcomes</p>	<p>A theme running through the Committee's pre- and budget scrutiny was the extent to which the national outcomes in the National Performance Framework influence policy-making and spending decisions. Indeed, in both reports, we have recommended that "the Scottish Government considers how the National Performance Framework could be more closely linked to budget planning". We are disappointed that this recommendation remains outstanding.</p>	<p>The Scottish Government's National Performance Framework and national outcomes are the key foundation to Scottish Ministers policies and objectives. We agree that it is important to continue to improve the wider understanding of how the Scottish Budget delivers on these national outcomes. For that reason, the annual budget publication now includes a summary assessment of how the spend in each portfolio links with the national outcomes from the National Performance Framework.</p> <p>As I set out above, we will use the outputs from the RSR process to continue improving our public finance processes, such as how we monitor and evaluate outcomes from spending decisions and feed this into decision making, and increasing transparency through our Open Government work. The Scottish Budget 2023-24 will present an opportunity to demonstrate progress in these areas.</p>
<p>Links with the National Performance Framework outcomes</p>	<p>We believe that the Spending Review provides an opportunity and some momentum to achieve closer alignment of the NPF outcomes with the Budget, the Medium-Term Financial Strategy, and spending reviews and we ask the Scottish Government to explain how this will be achieved. We agree with the Public Audit Committee that effective leadership and strong governance should be a priority of the Scottish Government, to help overcome the challenges to achieving this in practice.</p>	<p>Please see my answer to the above point.</p>
<p>Links with the National Performance Framework outcomes</p>	<p>We recently launched an inquiry on the 'National Performance Framework: Ambitions into Action' to look at these issues more closely, including the processes, systems, cultures and behaviours which support delivery of the NPF. This work will also inform the Committee's subsequent work on the Scottish Government's statutory review of the</p>	<p>I note this and look forward to the Committee's findings and recommendations.</p>

	<p>National Performance Framework outcomes due to begin with external engagement in the second half of 2022. We look forward to setting out our findings and recommendations to the Scottish Government arising from this inquiry in due course.</p>	
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