Finance and Public Administration Committee

8th Meeting, 2021 (Session 6), Tuesday 1 March 2022

Investing in Scotland's Future: Resource Spending Review Framework

Purpose

1. The Committee is invited to take evidence from the following two panels of witnesses in relation to its inquiry into 'Investing in Scotland's Future: Resource Spending Review Framework':

Panel 1
- COSLA

Panel 2
- Scottish Council for Voluntary Organisations, Scottish Property Federation, and Universities Scotland.

2. This paper provides background information to inform this evidence session and the written submissions provided by these witnesses are provided at Annexe A.

Background

3. The Budget Process Review Group explains in its 2017 report[1] that "spending reviews are intended to provide a means via which overall expenditure can be prioritised", adding that they are not expected to provide a mechanism for allocating new spending proposals or monies, but are "a means of prioritising and identifying potential savings options associated with existing expenditure". It goes on to say that "the opportunity for parliamentary influence on the budget is greater in spending review years when priorities are more likely to be reassessed", and that "it is therefore essential that the Parliament has sufficient opportunity to robustly scrutinise Scottish Government spending reviews".

4. Under the Budget Process Session 6 Agreement between this Committee and the Scottish Government[2], the framework document for a spending review should set out "the economic and political context, the criteria which will govern the assessment of budgets and the process and timetable for review". It further indicates that "committees should undertake a constructive dialogue with Ministers, public bodies and stakeholders once the framework document is published, in order to influence the outcome of the spending review". Prior to the December 2021 document, a

[1] BPRG - Final Report 30.06.17.pdf (parliament.scot)
[2] Budget Process Session 6 Agreement (parliament.scot)

framework for a spending review had only been produced once before by the Scottish Government, as chapter within the May 2019 Medium-Term Financial Strategy (MTFS), in anticipation of a Scottish spending review, which did not in the end materialise due to external factors.[2]

5. On 9 December 2021, the Scottish Government published a consultative document, 'Investing in Scotland's Future: Resource Spending Review Framework'[3] (RSR Framework), alongside the Scottish Budget 2022-23 and fourth MTFS, and is seeking views on the RSR Framework by 27 March 2022. Informed by this consultation, the Scottish Government's first resource spending review since 2011, is expected to be published in May 2022 and will cover the Scottish Government's priorities for spending for the remainder of the parliamentary session.

6. The RSR Framework indicates that the RSR and Capital Spending Review, published in February 2021, will together give a comprehensive picture of Scotland's multi-year public spending plans. It also sets out the Scottish Government's core priorities for the RSR as follows—

- to support progress towards meeting child poverty targets,
- to address climate change; and, underpinning these,
- to secure a stronger, fairer, greener economy.

Committee inquiry

7. The Committee agreed on 30 November 2021 to conduct a short, focussed, inquiry aimed at influencing the Scottish Government's spending priorities over the next three years, looking at longer-term priorities rather than the demands of a one-year budget cycle.

8. As part of this inquiry, the Committee issued its own call for views on the RSR Framework, seeking responses to the following cross-cutting questions—

- 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?

[3] Investing in Scotland's Future: resource spending review framework - gov.scot (www.gov.scot)

9. The Committee received 15 responses[4] to its call for views. SPICe has produced a summary of responses[5], structured around the views provided under each of the questions above. The Committee agreed to hear from three panels of witnesses, some of whom had highlighted in their written evidence issues relating to the financing of net zero targets, another of the Committee's key areas of work.[6]

10. While most respondents to the call for views said they were broadly content with the Scottish Government's three core priorities for the RSR (listed in paragraph 6 of this paper), there was some concern that these were pitched at a very high level and there was limited commentary on the data and drivers behind them or on how stakeholders would be expected to contribute to achieving these ambitions. While COSLA, the voluntary sector, and some public bodies commented that it was helpful to undertake longer-term planning, they said that more certainty was required around multi-year funding.

11. Professor David Heald suggested that the priorities in the RSR should focus on recovery from the direct and indirect effects of the pandemic, enhancing efficiency of public services, improving relationships with local authorities, and ensuring that financial plans "are fiscally sustainable in light of the Covid-19 legacy and demographic challenges". While others, such as Universities Scotland and Colleges Scotland, expressed concern that education was not included as one of the core priorities. The Scottish Women's Budget Group considered that the Framework should have referred to both 'care' and 'gender', while the ALLIANCE said that "further steps could be taken to explicitly embed human rights and equalities as an overarching policy".

12. Most respondents felt that the Framework did not reflect the full economic and political context, particularly the effects of the pandemic and longer-term pressures on the public sector of resourcing and increased demands. Some considered that the RSR should also reflect current inflationary and cost of living pressures, given financial investment would be needed to address or mitigate them. Demographic challenges were also highlighted, with the Scottish Property Federation suggesting that "the Framework 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".

13. COSLA noted that, while there is mention of cross-cutting and preventative measures, a "genuine focus on preventative approaches is needed", and that the potential for prioritising such measures had been limited by financial pressures. The Chartered Institute for Housing noted that "housing is an excellent example of how investment in one area can have a positive impact on others", such as health and social care and community justice.

14. Some respondents were unclear about how the priorities in the RSR link to the national outcomes in the National Performance Framework (NPF). COSLA argued for example that "there should be greater clarity and transparency about how

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[4] Framework for the Resource Spending Review | Scottish Parliament Website.
[5] 20220208_rsr_spicesummaryofevidence.pdf (parliament.scot) This summary covers the 14 responses received at the time of its publication on 8 February. One further response was submitted.
[6] This includes Universities Scotland, Scottish Property Federation and COSLA.

budgets are contributing to the NPF, any priorities set by a spending review, and how these interlink". Universities Scotland noted the challenges for Scotland's public, private and voluntary sector organisations "to work out what is the accurate definition of the Scottish Government's priorities since these are set out differently, e.g. in the NPF, Programme for Government, RSR Framework and (potentially) the impending Economic Transformation Strategy". The Committee has commented in previous reports that the Scottish Government should consider how the NPF could be more closely linked to budget planning, however, further information requested on the matter has still to be received.

Next steps

15. The Committee will take further evidence on the RSR Framework from David Heald, Professor of Public Sector Accounting at the University of Glasgow, and Emma Congreve, Knowledge Exchange Fellow at the Fraser and Allander Institute, on 8 March 2022. It will thereafter consider and agree a response to the Scottish Government's consultation on the RSR Framework at a future meeting.

Committee Clerks
February 2022

Annexe A

Written Submission from COSLA

COSLA welcomes the opportunity to provide views to the Committee on the Scottish Government's Resource Spending Review. Whilst COSLA will respond in full to the Scottish Government's Consultation in due course, we can offer the Committee some initial views on the questions posed. The Committee's questions and COSLA's views are set out below.

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

The framework sets out that the approach to the Spending Review is intended to be outcomes focused, evidence based and consultative. This is welcomed, though 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 (e.g. £3m for Whole Family support,£1.5m Pavement Parking Ban Funding, Directed Employability Funding (£80.65m in 2021/22) including No One Left Behind, Parental Employability Support Fund (PESF, PESF Boost, £3.2m National Trauma Training Programme). 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.

We are 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

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

While we are not in a position to pre-empt COSLA's response to the consultation which asks for comment on these priorities, they are in line with some of COSLA's priorities:

- Meeting child poverty targets
- Addressing climate change
- Securing a stronger, fairer, greener economy

However, we believe that the Spending Review provides an ideal opportunity to be clear about the roles played by national and Local Government, as well as public providers. Local Government's role is integral to achieving successful outcomes in each of the key priority areas and this should be recognised and those outcomes in the National Performance Framework.

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.

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

This has undoubtedly been an extremely challenging time and a clear focus on economic and social recovery is needed, as we plan ahead for the future.

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.

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

The framework makes reference to each of these approaches, however what is needed is a genuine focus on preventative approaches in particular, aligned to the recommendation from the Christie Commission. Local Government and its partners have a critical role to play in transforming communities and enhancing health and wellbeing. However Local Government's ability to bring about this change has been severely hampered by financial pressures on core budgets. 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.

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

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. Need to move away from myriad disconnected funding pots, to a funding basis which allows for maximum flexibility. 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.

Written Submission from the Scottish Council for Voluntary Organisations (SCVO)

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

There is a clear identification within the framework of the three core priorities around child poverty, climate change and a fairer, greener economy. SCVO welcomes the underpinning of this approach through an outcome focused, evidence based, consultative strategy. We appreciate the commitment given in Parliament by Kate Forbes MSP, Cabinet Secretary for Finance and the Economy, to meet with the third sector during this process and look forward to hearing more details about this.

We also endorse the intention of this being the start of a national conversation, and hope to see greater engagement with the sector than was the case with the development of the economic transformation strategy. Alongside this, SCVO welcomes the reference to creating the conditions for the voluntary sector to thrive and we believe this is a vital pre-requisite for realising the Cabinet Secretary's aims of delivering effective public services and maintaining sustainable public finances.

However, 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. In the face of growing demand for its services over the past decade, Scotland's voluntary sector has often had to battle not to be forgotten by the public sector and has felt the full force of cuts.

A 2019 report from the then Equality and Human Rights Committee highlighted a range of issues including uncertainty with short-term funding, the impact on partnership working of a competitive funding environment and the limitations of ring-fenced funding that does not cover core costs. These difficulties have been intensified by the pandemic as the sector was hit by a perfect storm of income loss and fluctuating service demand.

Despite this, voluntary organisations have played an invaluable role during the pandemic, and have been at the heart of the response. Both local and national government in Scotland have relied heavily on the voluntary sector to support people and communities through the public health and economic emergency. This has seen innovative practices and partnerships developed between the voluntary and public sector and this must be at the heart of new funding models.

There are references to multi-year funding in the review document, but this is not explicitly outlined as applying to the voluntary sector. We would have expected to see this Programme for Government commitment included in the spending review, and as detailed in response to question two, multi-year funding for the sector must be an overarching priority for the Government. 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.

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

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. It must be an integral part of both Scottish Government funding for the sector and a key condition of local authority multi-year funding given the reliance on voluntary organisations at local level.

We welcome the interest shown by the Finance and Public Administration Committee in multi-year funding during the pre-budget process, and point to comments from the Auditor General and a plethora of reports over many years, which have called for a meaningful shift away from annual budgeting. The most recent Programme for Government also contained a commitment to develop longer term funding models for the sector and in Parliament in December 2021 Kate Forbes MSP, Cabinet Secretary for Finance, agreed that the third sector should receive multi-year funding. The Social Renewal Advisory Board also included a call for multi-year funding, asking ‘If not now, when?’. Now is the time for this to become a reality and it must include the voluntary sector. Not just in direct relation to these three core priorities, but across the board for voluntary sector funding from both national and local government.

The framework correctly outlines how this would ‘provide our delivery partners and businesses, communities and individuals across Scotland with some certainty on which to base their own forward planning’. However, the benefits for the sector and in turn the services they deliver would be far greater than this. Having predictable income would not only ensure that voluntary organisations would be better placed to plan services, but would provide a greater continuity of service, which individual service recipients and communities so greatly value.

Multi-year funding would also provide vital financial stability to voluntary sector organisations which in turn would enhance the service delivered as well as accelerate progress towards Fair Work outcomes. Currently, a failure to ensure timely payments, combined with a recurrent lack of coverage for neither core costs nor inflationary uplifts, mean many voluntary organisations delivering services are under acute financial strain in an incredibly challenging economic environment. We know of some charities who have not received an inflationary uplift for the past six years and others who have had to dip into reserves to ensure wages are paid and services continue even when awaiting delayed contract renewal decisions. Continued uncertainty through short term contracts makes staff retention challenging for organisations and hinders their ability to offer training and development opportunities

The framework must also provide details on what multi-year voluntary sector funding would actually look like. In order to achieve a maximum return on investment and ensure the best quality of service can be delivered, funding for the voluntary sector should have inflationary rises built in. In addition, it should not be overly burdened with prescriptive requirements, hampering the ability of the funded organisation to adapt and respond to changing circumstances. Instead, new funding models for the sector need to be central to this review, building on examples of good practice such as we have seen during the pandemic.

Central to this should be the principle of timely payments. Timely payments would not only reduce the strain of uncertainty for organisations and their staff, but would also limit the need for time and energy to be utilised for the resource-intensive process of regularly applying for funding. For example, recently at SCVO, because of process delays inside Scottish Government, we did not receive the annual grant letter for Community Jobs Scotland until August, four months after the start of the financial year. This has meant that around 160 jobs for disadvantaged young people have not been created, and there is an underspend of £1m. We had plenty of voluntary sector employers and young people ready and waiting, but we have not been able to meet that need, all because a letter was not issued.

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

The framework outlines significant elements of the current economic and political context. However, there is little recognition of the integral role played by the voluntary sector in social and economic life in Scotland and the financial strain it is under. As outlined previously, never has the sector's importance been more apparent than over the last two years of the pandemic.

The voluntary sector's huge role in our economy extends well beyond the 100,000+ people it employs and an annual turnover of over £6 billion. It is disappointing therefore to see no reference to the voluntary sector regarding economic transformation. In addition, there is no mention of the pioneering work done by voluntary organisations to create and develop the wellbeing economy. Just as the voluntary sector was overlooked in the creation of the Council for Economic Transformation, we fear it will be the same for the resource spending review.

There are clear examples of how public investment in the voluntary sector leads to a monetisable return on investment. For example, in 2018/19, for every £1 of public spending received, Children's Hospices Across Scotland (CHAS), generated £6.24 of public value in return. However, the economic contribution of the sector extends far beyond a narrow GDP lens. As well as providing invaluable support during the pandemic, the economic weight of the sector offers tremendous potential to help shift to an inclusive, wellbeing economy. The sector supports people in becoming active in the economy through employability support. Voluntary organisations provide care, digital skills and devices, and research-based charities offer crucial contributions to social, economic, and environmental discussions. Culture is key to recovery, and the voluntary sector runs many theatres, museums, galleries and sports clubs.

Voluntary organisations also provide greener active-travel services, benefiting health, the environment and increasing access to local amenities. The sector plays a crucial role in monitoring and reporting the impact of changes on different marginalised communities. Scotland's 6,000 social enterprises put profits and surpluses towards social and environmental missions, and they are standard setters, influencing change in the norms and behaviours in the private sector.

Tackling poverty and inequalities and addressing systemic issues such as climate change and a just transition to a net-zero economy are also intrinsic to the work of charities, community organisations and social enterprises. So too are other significant policy directions such as community empowerment and shifting to an inclusive, wellbeing economy; it is happening at a national, local and community level and must be recognised and harnessed in the economic strategy.

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.

Written Submission from the Scottish Property Federation

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

We welcome the intention to develop a system of multi-year spending plans by the Scottish Government. The framework proposed is clear in terms of the high level priorities that drive its policy proposals. These include child poverty, climate change and economic transformation. Our industry membership is best placed to comment on aspects of climate change and economic transformation.

The framework is 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?

The priorities should be to resource government spending commitments to support recovery from the pandemic and to meet the challenges of transition to a net zero economy.

Without recovery from the pandemic then even if ongoing vaccination measures succeed in reducing direct pressures on the critical public services, the government is nonetheless faced with the challenge of rejuvenating the economy. This will be essential to support revenues to invest in repairing public sector capacities and building resilience for future public or economic emergencies (i.e. the financial crisis). For these reasons, 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?

No, 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.

The Committee has covered the issue of income tax revenue at length in its own Budget report. Non-domestic rates (NDR) revenue however is also a key component of future revenue and resource. 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.

An element of the increase will flow from the end of relief for retail, leisure, and hospitality from July of this year, and from 1 April 2023 empty property rates relief policy is to be transferred to local authority control. In June 2021, the cost of this relief was estimated at £75m by the Scottish Government (NDR Relief statistics October 2021). This figure may be skewed by the wide-ranging 100% relief made available to Retail, Hospitality, Leisure, and Aviation subjects in response to the pandemic. However, we fail to see how the growth in revenue is supported by economic growth and revaluation. There is therefore a risk of a significant shortfall in revenue expectations 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 (FT How the UK High Street was hit by the pandemic: look up your area: 19 January 2022).

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.

(NDR revenue figures used are sourced from Scottish Budget 2022-23: 9 December 2021)

Written Submission from Universities Scotland

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

Universities Scotland approaches the multi-year resource spending review with both hope and concern. We welcome the consultative approach that the Scottish Government is taking.

Our separate joint submission with Colleges Scotland to the Committee (17 January) on the draft Scottish Budget set out the severe financial challenges that are facing the university sector and compromising its capacity to drive Scotland’s recovery and transformation. A Scottish Budget that continues the Scottish Government’s pattern of year-on-year real terms cuts to funding per student, funding for research, and funding for interaction with business makes universities unable to deliver their full benefit for our nation.

We look forward to a multi-year spending review settlement if it is one that reverses this trend and invests in universities’ contribution to the nation’s success, but we are concerned the review will not achieve this.

The Resource Spending Review Framework is clear on its three priorities of addressing child poverty, addressing climate change and securing a stronger, fairer, greener economy. This largely mirrors the priorities already indicated in the Scottish Government’s budget for 2022/23, spending plans which will deliver a real terms cut to higher education funding (after adjusting for inflation, the financial year to academic year conversion and adjusting for an increase in volume between 2021/22 and 2022/23). As a result, the Framework gives universities little prospect of a different outcome from the spending review process.

In practical terms, the framework document is clear about the scale of commitment of resources for health, social care and social security. We recognise the importance of all these areas to social and individual wellbeing. However, when these commitments are coupled with the negative Block Grant Adjustments, owing to slower growth in employment and earnings than the rest of the UK, the Framework document offers sobering illustrations of the impact that may have on the rest of the Scottish Government budget.

The combination of commitments and projections of economic underperformance leaves very little assurance for other sectors, including higher education. 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.’

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.

For smaller economies such as Scotland, high-level skills are a necessity to ensure we can continue to compete in a globalised context where artificial intelligence, big data, digital and creativity drive innovation. It is very difficult if not impossible to predict the precise skills needs for a given industry - let alone the Scottish economy as a whole. Even if we could, people will need to adapt to different roles and skills over time. Over and above specific disciplines, it is higher-order cognitive skills that are in increasing demand as evidenced from sources like the World Economic Forum, Institute for Business Value and CBI/Pearson demonstrate. Undergraduate provision is a key part of that contribution, with the capacity to cultivate exactly that sought-after cognitive skill set. Higher education also has a key role to play in upskilling and reskilling, the provision of short courses and micro-credentials and in highly-focused postgraduate degrees and work-based learning models like graduate apprenticeships. Prior to the pandemic, universities were a growing source of professional development for Scotland’s workforce, with a 23% increase in the number of people choosing a university to progress their CPD. Universities delivered CPD to more than 31,000 people in 2016/17. The data picture is not yet available at a sector level since 2020 but universities have seen demand for short, professional and re-training courses soar since the pandemic and have been able to scale-up to meet this demand.

Part of universities’ contribution to Scotland’s growth flows from the higher education sector’s excellent research and innovation activity. The Framework document is focused solely on 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, as 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.

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

Without detriment to any of the important priorities set out in the framework, they represent only a subset of the priorities the the government needs to address to achieve inclusive economic growth.

Additionally, 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.

We have already illustrated this above in regard to green economic growth and addressing the climate challenge. 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. The Scottish Government's own stated purpose in the National Performance Framework would provide a broader evaluative framework, i.e. to:

- create a more successful country
- give opportunities to all people living in Scotland
- increase the wellbeing of people living in Scotland
- create sustainable and inclusive growth
- reduce inequalities and give equal importance to economic, environmental and social progress.

Universities Scotland previously mapped the higher education sector's contribution against the National Performance Framework, which can be found online , 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.

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

The framework makes a fair recognition of the challenges to the Scottish budget arising from socio-economic factors such as an increased proportion of the population with significant health and social care needs, and the pressures arising from low growth in Scottish tax revenue (associated with lower-than-UK demographic and economic growth).

What it does not do is set out ambitions to address those socio-economic challenges. For instance:

- 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. See the economic analysis in

Universities in Advanced Economies for a range of evidence of how investment in universities' contributions to economic growth result in increased revenue for the Scottish Exchequer – a consideration that SG Spending Reviews do not take account of.